

12002-4014X2 Y

Pull up a seat

for a serving of **customer mania.**



Yum! Brands

2002 ANNUAL REPORT



FINANCIAL HIGHLIGHTS

(in millions, except for store and per share amounts)

Number of stores:	2002	2001	% B/W change
Company	7,526	6,435	17
Unconsolidated affiliates	2,148	2,000	7
Franchisees	20,724	19,263	8
Licensees	2,526	2,791	(9)
Total stores	32,924	30,489	8
 Total revenues	\$ 7,757	\$ 6,953	12
U.S. ongoing operating profit	\$ 825	\$ 722	14
International ongoing operating profit	389	318	22
Unallocated and corporate expenses	(178)	(148)	(20)
Unallocated other income (expense)	(1)	(3)	59
Ongoing operating profit	1,035	889	16
Facility actions net (loss)	(32)	(1)	NM
Unusual items income	27	3	NM
Operating profit	\$ 1,030	\$ 891	16
Net income	\$ 583	\$ 492	18
Diluted earnings per common share ^(a) :			
Ongoing	\$ 1.91	\$ 1.61	19
Facility actions net (loss)	(0.09)	0.01	NM
Unusual items income	0.06	—	NM
Reported	\$ 1.88	\$ 1.62	16
Cash flows provided by operating activities	\$ 1,088	\$ 832	31

(a) Per share amounts have been adjusted to reflect the two-for-one stock split distributed on June 17, 2002.

AVERAGE U.S. SALES PER SYSTEM UNIT^(a)

(in thousands)	2002	2001	2000	1999	1998	5-year growth ^(b)
KFC	\$ 898	\$ 865	\$ 833	\$ 837	\$ 817	3%
Pizza Hut	748	724	712	696	645	3%
Taco Bell	964	890	896	918	931	1%

(a) Excludes license units.

(b) Compounded annual growth rate.

WORLDWIDE SYSTEM SALES^(a)

(in billions)	2002	2001	2000	1999	1998	5-year growth ^(b)
United States						
KFC	\$ 4.8	\$ 4.7	\$ 4.4	\$ 4.3	\$ 4.2	4%
Pizza Hut	5.1	5.0	5.0	5.0	4.8	2%
Taco Bell	5.2	4.9	5.1	5.2	5.0	2%
Long John Silver's ^(c)	0.5					NM
A&W ^(d)	0.2					NM
Total U.S.	15.8	14.6	14.5	14.5	14.0	2%
International						
KFC	5.4	5.0	5.0	4.6	4.0	4%
Pizza Hut	2.8	2.6	2.6	2.6	2.5	2%
Taco Bell	0.2	0.1	0.1	0.1	0.1	10%
Total International	8.4	7.7	7.7	7.3	6.6	4%
Total	\$24.2	\$22.3	\$22.2	\$21.8	\$20.6	3%

(a) System sales represents the combined sales of Company, unconsolidated affiliates, franchise and license restaurants.

(b) Compounded annual growth rate; Totals for U.S., International and Worldwide exclude the impact of Long John Silver's and A&W for 2002.

(c) Beginning May 7, 2002, includes Long John Silver's and A&W, which were added when we acquired Yorkshire Global Restaurants, Inc.

Dear partners, I'm sure you'll agree the best year any business can have is when you beat your financial plan and set the table for future growth. I'm pleased to report 2002 was just that kind of year for Yum! Brands.

Our stated long-term goal is to grow our annual earnings per share by at least 10% every year. In 2002, we grew ongoing operating earnings per share 19%. We also said 2002 would be a year of revenue growth, and we delivered on that promise, with 12% revenue growth. We expanded our core international restaurant portfolio by 6%, and at the same time, we achieved our 2% blended same store sales target in U.S. company-owned restaurants. Our U.S. systemwide same store sales, including the sales of our franchise partners, performed even better—up 4%. Internationally, we once again set a new record for traditional restaurant openings, 1,051 to be exact, and grew international ongoing operating profits 22%. Worldwide restaurant margins also reached an all time high at 16%, up 1.2 points versus last year. Our Return on Invested Capital was 18%, the highest in the quick-service restaurant industry. By any measure, 2002 was an outstanding year for your company.

With all this good news, I by no means want to gloss over the challenges we face. We obviously have both our opportunities and issues and I will deal directly with them in this letter. Let me start by acknowledging that our U.S. business competes in a very challenging and competitive marketplace. Some pundits, in fact, have written that the U.S. quick-service restaurant industry is oversaturated and mature. Maybe so for some brands and some companies. But we are building Yum! for long-term growth around three unique building blocks that differentiate us from our competition and provide an exciting growth opportunity. We are anything but your ordinary restaurant company. Let me explain.



#1 DRIVING INTERNATIONAL GROWTH. We clearly can make the case that no other restaurant company has the kind of opportunity we do outside of the United States. One of the things that we are most proud of is that our international team has more than doubled its ongoing operating profit in the five years we have been a public company. With a track record of adding about 1,000 new restaurants per year in each of the last three years, our international business is now our largest and fastest growing division.

What's more, there are only two competitors in our category of any size, McDonald's and us, competing for the international share of stomach. Consider this: McDonald's earns over \$1 billion a year in international profit; we earn nearly \$400 million and the next largest competitor is Burger King, which earns about \$50 million. As you can imagine, the biggest challenge to building a business outside the United States is achieving operational size and scale for profitable growth and making sure you have the people capability to execute. Through a lot of hard work and years of investment (thank goodness the money losing investment years were by Pepsico), we now have a very experienced team of talented international executives and 560 franchisees operating in over 100 countries and territories. It will take new entrants years of investment to reach our size and scale. The capability we have built is a huge competitive advantage underpinning our growth.

Let me dimensionalize our company's opportunity. In 1992, McDonald's had a little over 4,000 international restaurants—today they have over 16,000. When you look at Yum! today, we have about 11,800 international restaurants with essentially two global brands—more than 6,800 KFCs and over 4,400 Pizza Huts. We're committed to doubling our number of international restaurants in the next eight to ten years by continuing to grow at a clip of 1,000+ new restaurants a year with KFC and Pizza Hut. Not to mention the opportunities multibranding may unleash with Taco Bell, Long John Silver's and A&W. While we see our level of new restaurant development increasing gradually, we are not predicting a more rapid increase because to do so could threaten the high standards we have for our returns.

We're focusing our international company operations in seven countries that account for about 70% of our ongoing operating profit in 2002, with China, the United Kingdom, Mexico and Korea receiving the majority of our company's capital investment because the returns are terrific. Our franchise and joint venture partners are driving system growth by opening about 65% of our new international restaurants. Importantly, our partners are using their capital, not ours, to grow their business as we do not invest in our franchisees' real estate, like some other franchisors do.

China continues to be our rising star with approximately 800 KFCs and 100 Pizza Huts. In China, we have one of the largest real estate teams, not just in the restaurant industry, but in any industry. Another unique advantage in China is that we have our own distribution system that gives us coverage in every major province and access to

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Customer Mania is taking hold around the world. At a recent team dinner hosted by KFC Malaysia Holdings, Restaurant Managers from throughout Asia dressed in their country's traditional costumes and celebrated Customer Mania.



Above: With over 100 Pizza Huts in China, the brand is the country's leader in the casual dining category.
Right: Celebrations marked the opening of the 700th KFC in China (we opened our 800th in 2003!).



almost the entire population of 1.3 billion people. As a result of these capabilities, combined with the superlative operating skills of the Chinese team, we are currently opening more than 200 restaurants in China each year. I'm more convinced than ever that KFC in China will one day become a bigger business than KFC in the U.S. After all, KFC is the Chinese customer's favorite brand of any kind...period.

The biggest challenge we face today is developing new markets...getting to scale in Continental Europe, in Brazil with KFC, and in India with Pizza Hut. Opening up KFCs in Germany is a challenge given consumers' unfamiliarity with the brand and their preference for beef products. As a result, we plan to test KFC-A&W multibrand restaurants in Germany in 2003, providing consumers with a hamburger option. Results for KFC in France and Holland have been very promising. We now have an outstanding group of well-capitalized franchisees to grow Pizza Hut in India. And we just formed a joint venture in Brazil with experienced food service operators who have the local knowledge to help us get up and running. But it's tough sledding because building operational capability outside the U.S. takes time. Our approach is to be patient and ever-mindful of overall profitability and returns. Our international business self funds its new development from the cash flow it generates, and we have a very disciplined process to ensure we maintain and build our high returns on capital.

As I hope you can tell, we're truly excited about our international opportunity. We have little competition and lots of runway to continue growing profitability. The facts speak for themselves. We are building a powerful international business and our goal is to be nothing less than the premier global restaurant company. We intend to grow our international profits at a mid-teens rate, with great returns for years to come.

We're committed to doubling our number of international restaurants in the next eight to ten years by continuing to grow at a clip of 1,000+ new restaurants each year.

#2 MULTIBRANDING GREAT BRANDS. The question I get asked most often is how do you compete in the tough U.S. market? Our answer is to be the best in the world at providing customers branded restaurant choice. We have category-leading, highly differentiated brands with proprietary products that succeed as stand-alone restaurant concepts. Yet our customers have told us loud and clear that we can break away from the pack by offering two of our great brands in the same restaurant. We call it multibranding, and here's why it's such a big idea.

For years, McDonald's has been the envy of the industry for their high average U.S. unit volumes, at about \$1.6 million, almost twice that of the average Yum! Brands restaurant in the U.S. One reason why McDonald's has such high volumes is they offer the consumer more choices. In fact, they offer seven different types of food—everything from burgers, chicken, fish, and shakes to breakfast. McDonald's has something for everybody and this drives sales.

"It's all about my customers. They tell me they come here because there is something for everyone in the family. Burgers for the kids, fish for mom and a Root Beer Float for dad."

Stephanie Hankins,
Long John Silver's/A&W



1,975 of our nearly 33,000 restaurants are now multibranded and account for almost \$2 billion in annual system sales.

We have the potential for
13,000
multibranded units
in the U.S. alone.

However, historically, each of our brands has focused on one food category. Pizza Hut has pizza in its name. KFC means Kentucky Fried Chicken. Taco Bell stands for Mexican-style food. And every time we've tried to broaden our appeal by moving into new categories, it fails because our brands stand for just one thing. No one's looking for a KFC or Taco Bell hamburger. But at the same time, consumers do want more choice and convenience. And, what we've proven is that consumers love the idea of getting variety with branded authority—accessing two brands in the same restaurant—multibranding. Our research tells us that customers prefer multibranded restaurants 6:1 over stand-alone brands, and we are listening and responding to the voice of our customer.

We started with combinations of KFC-Taco Bell, and Taco Bell-Pizza Hut. We learned that we were able to add \$100,000 to \$400,000 per unit in average sales, dramatically improving our already strong unit economics. We then began testing multibrand combinations of KFC and Taco Bell with Long John Silver's, the country's leading seafood restaurant, and A&W All-American Food, which offers a signature frosty mug Root Beer Float and pure-beef hamburgers and hot dogs. Based on proven and encouraging multibrand test results, we acquired Long John Silver's and A&W this year. With this acquisition, we have more than tripled our multibranding opportunities in the U.S.

Because of the significant sales increases we are generating with multibranding, we are remodeling much of our existing U.S. asset base by adding a second brand. This will help us dramatically change our U.S. business over the next five years. We are also opening high return new restaurants in trade areas that used to be too expensive or did not have enough population density to allow us to go to market with one brand. With multibranding, we believe we now can realistically take both KFC and Taco Bell to at least Burger King levels of U.S. distribution. Burger King has about 8,000 units in the U.S., with \$1+ million average unit volumes. In comparison, Taco Bell and KFC each have over 5,000 restaurants. As we expand Taco Bell and KFC by adding Long John Silver's and A&W under the same roof, we expect to take volumes to an average of at least a \$1.1 million per restaurant. As we do, we plan to make Long John Silver's and A&W national brands and dramatically increase their marketing clout.

Our biggest remaining concept challenge is to develop a multibranding combination for Pizza Hut. We have formed a licensing agreement with Pasta Bravo, a California fast casual chain with an outstanding line of pastas at great value. We will begin testing Pasta Bravo with Pizza Hut's dine-in restaurants in 2003. Next year I hope to report very good results on this initiative. We are confident multibranding will be every bit as successful for Pizza Hut as it has been for our other brands.

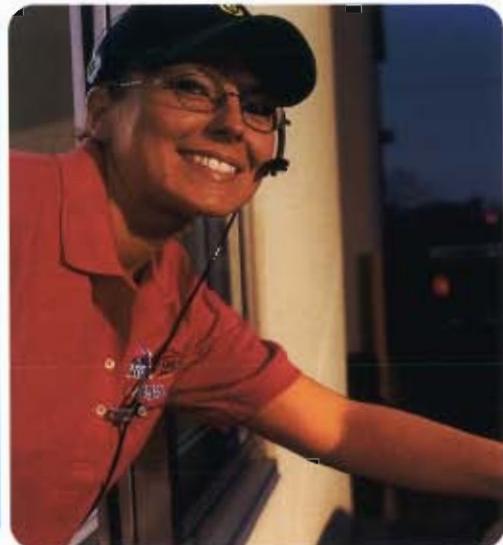
You might be thinking, if multibranding is such a big idea, why aren't you moving faster? The quick answer is that we want to do this in the best possible way. The biggest executional issue we face is building the operating capability to successfully run these restaurants. As you would expect, these restaurants are more difficult to run because of the added complexity of offering two menus. To tackle the executional challenge, we have dedicated a team of



As we expand Taco Bell and KFC by adding Long John Silver's and A&W under the same roof, we expect to take multibrand volumes to an average of at least \$1.1 million per restaurant.

"I believe in my team. And they know that everyone in the restaurant is critical to making each customer who comes in our store feel like they are our #1 priority."

Allison Hale, RGM
Taco Bell, Southern Multifoods Inc.



our very best operators to develop simplified operating and training systems. Our operating measures and margins now approach those of our single brand units, but we still have much work to do. However, given the sales and profit upside, the pain of working through the executional issues is more than compensated for by the gain we are generating. The best proof of this is that over 40% of our multibrand units are being opened by franchisees putting their own hard-earned money in the game. Since franchisees only get behind initiatives that make sense for their customers and long term economics, you can tell from their investment they're as excited about multibranding as we are.

The bottom line is we now know multibranding is potentially the biggest sales and profit driver for the restaurant industry since the advent of the drive-thru window. Asset sales leverage is the key to profitability in any retail category, and multibranding provides that leverage for us. Our goal is to ultimately offer two brands in the vast majority of our restaurant locations. We added almost 350 multibrand locations this year. With over 1,975 multibranded restaurants, multibranding now represents nearly 6% of our worldwide system and about \$2 billion in annual system sales.

Importantly, this strategy is very unique to Yum! We have a portfolio of leading brands. We have a huge asset base of existing restaurants that is not capacity constrained. We have unpenetrated trade areas. We have a great head start. And we're really just getting started. Our goal is to transform the quick-service restaurant landscape with multibranding.

#3 IMPROVING OPERATIONS OF OUR GREAT BRAND PORTFOLIO WITH CUSTOMER MANIA.

As you can see in this chart, we have the leading brands in four major categories: pizza, chicken, Mexican-style food, and seafood. A&W also gives us a quality hamburger chain. Make no mistake. Growing these core brands is Job #1 for us!

Over the past 15 years, we've averaged about 2% blended domestic same store sales growth. Yet, we've had some inconsistency by brand (especially quarter to quarter) because we know we're not nearly as good as we should be at running great restaurants and making our customers happy. The rude reality is that our customer survey results indicate we rank only in the middle to bottom tier on the basics, and the attitude we convey to our customers is frankly not as consistently positive as it needs to be. We know the more our customers can count on a trusted experience every time they visit one of our restaurants, the more consistent our sales will be. In 2002, Yum! was up 2% on a blended or combined same store sales basis in the U.S. Taco Bell led the way, with same store sales up 7%, and KFC and Pizza Hut were only flat, so clearly we can and should do better.

LEADERS IN FOUR FOOD CATEGORIES

(QSR Sales)

- Mexican 65%
- Chicken 46%
- Seafood 33%
- Pizza 15%

SOURCE: NPD Group, Inc./CREST



WELCOME



"Customer Mania to me is the determination to have each and every customer that comes through your door become a repeat customer—for life."

Jim Vavrek, LJS/A&W Area Coach

We are the

leader
in the
chicken,
pizza,
seafood & Mexican
quick-service categories.

To address this obvious opportunity, we launched our innovative Customer Mania training program this past year. We define Customer Mania as 100% CHAMPS with a YES! CHAMPS stands for the basics (Cleanliness, Hospitality, Accuracy, Maintenance, Product Quality, Speed of Service). YES means we bring the customer a positive "can I help you" attitude every time. And we're on a mission to make Customer Mania a reality in every one of our 32,924 restaurants.

We intend to continue to grow our earnings per share at least 10% every year!

We are now training our 840,000 team members once a quarter, every quarter from here on out, on how to be Customer Maniacs. We're teaching our frontline team members lifeskills that will help them be successful in whatever they ultimately decide to do in life. And we've now empowered the frontline team members to solve customer issues on the spot without having to get approval from their restaurant managers. We firmly believe that by staying after this day after day, year after year, we will become the very best in our business at providing consistently good service. Today Wendy's is rated one of the best, and we take our hats off to them. One day it will be each of our brands competing with one another for the top spot.

Customer Mania is driving improvement as we speak. To date, customer complaints are down and compliments are up. We are making improvements in speed at Taco Bell and Pizza Hut. And KFC has improved product quality. The key to great restaurant operations is the capability of our people, and our team member turnover is now 128%, well below the industry average, and much better than last year's 156%. Team members appreciate the investment we are making in them. They know they are important. We've never had this foundation before, and it will help us deliver a more trusted customer experience, and drive more consistent sales growth.

The Customer Mania journey has just begun and we clearly have sales upside as we climb up the customer service ladder. We can and must get better. Our goal is to be the best restaurant operator in our industry.

OUR TABLE IS SET FOR FUTURE GROWTH: On October 7 of 2002, we celebrated our fifth anniversary as a public company. We've nearly tripled our ongoing operating earnings per share since our spin-off from Pepsico. We've improved our balance sheet in every conceivable way by being financially disciplined and improving operations. We've moved from Tricon to Yum! Brands with the acquisition of Long John Silver's and A&W. We now have great brands in every major category.

"Customer Mania is contagious. If you're happy and smiling it changes your mood and your customer's mood. Put the customer first, recognize and appreciate your team and watch what happens!"

Franchise KFC/A&W RGM
Jennifer Dodd,
Luhn Food Systems



yes
attitude,
culture, &
mindset,
100% of the time.

We clearly set the table for the next five years and our goals are bold:

- be the premier global restaurant company,
- transform the QSR industry with multibranding,
- become the best QSR operator in the world, and last but not least,
- be the best restaurant company investment.

Given our unique international, multibranding and operational growth opportunities, we intend to continue to grow our earnings per share at least 10% every year. If we can deliver even better results, like we did in 2002, we will. Our challenge going forward is simple: Execute and get better and better and better at what we do.

As a shareholder, I want you to know the five key measures we're focused on to gauge our performance:

HOW YOU SHOULD MEASURE US

1) International Expansion...we want to add at least 1,000 new units and grow earnings at least 15% each year. 2) Multibranding...we want to add at least 400 units per year in the U.S. and grow that number every year. 3) U.S. Blended Same Store Sales Growth...we want to grow our same store sales at least 2% per year. Looking at our core U.S. business on a blended basis reflects the advantage of owning a portfolio of category-leading brands, diversified within the quick-service industry. The blended measure is unique in our industry and so are we. The portfolio allows us to hedge the inevitable ups and downs at each of our brands, and combined with multibranding, increases our capability to deliver at least a 2% blended same store sales growth rate in 2003 and beyond. 4) Franchise Fees...we generate over \$860 million in franchise fees with minimal capital investment. We expect to grow fees 4-6% each year. 5) Return on Invested Capital...at 18%, we are leading the quick-service restaurant industry. We expect to maintain our high returns by continuing to drive 16% margins in stores we own and by meeting or exceeding our high standards for returns on new capital investments. This will enable us to continue to generate substantial cash flow each year.

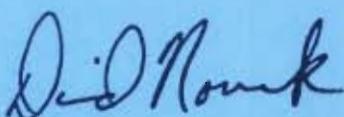
UNMATCHED TALENT

I'm confident we will execute our unique strategies because of the outstanding people we have in our company and our tremendous franchisees. We have a team that loves the restaurant business and is passionate about achieving greatness. I am privileged to be working with the best talent in the restaurant industry. Together, we are creating a customer mania and recognition culture that is allowing us to retain and recruit the very best. We believe in our formula for success: people capability first, satisfied customers will follow and then Yum! will make more money, and be an even greater investment for you.

I'd like to thank our dedicated team members, restaurant general managers, franchise partners, and outstanding Board of Directors for their many contributions and commitment to customer mania. I'd particularly like to thank Jeanette Wagner, who retired from our board this year, for her positive energy and support.

The table is set and the opportunities are ours for the taking...I hope you agree we are anything but your ordinary restaurant company.

YUM! TO YOU!



David C. Novak
Chairman and Chief Executive Officer



Setting ^{the}
table
around the
world.

BECOMING THE PREMIER GLOBAL RESTAURANT COMPANY

We clearly can make the case that no other restaurant company has the kind of opportunity that we do outside of the United States. Now our largest and fastest growing division, Yum! Restaurants International, is a powerful international business and our goal is to be nothing less than the premier global restaurant company.

David: How have you leveraged our people capability and sharpened our focus to nearly double our profits the past five years?

Pete: I'm proud of the fact that our executives on average have 17 years of experience in the business. I think they are the most talented leaders in the industry who have worked hard to build incredible teams and a strong franchise system. In the early '90s before our spin-off as a public company, the international division planted too many flags in too many countries. We were spread too thin, we didn't have proper resources in each country and we incurred large operating losses. In the last five years, we've become more disciplined about where we have company operations and about the tools we provide around the world. There are two factors that have emerged: A narrower focus on equity operations and much more disciplined tools that we manage with, among both company and franchise partners.

David: How did you decide where to focus our company equity investment?

Pete: We've been focusing our equity investment in *four key markets—China, the U.K., Korea and Mexico*. That's been our story for the last two or three years. Each of these large company markets generates a great deal of our profit and is well established with strong brands and strong growth potential.

Sam: Pete's right. Take China for instance. There's no doubt in my mind, we aren't even close to reaching our full potential there. China has roughly five times the population of the U.S., and KFC has about 5,000 units in the U.S., so at the same level of penetration we should have about 25,000 units in China someday. I'm proud of the fact that we've been rated the #1 brand in China today—so our true potential may even be bigger.

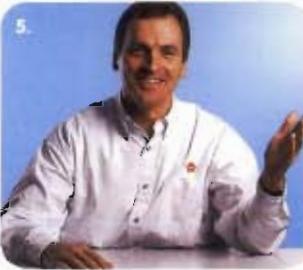
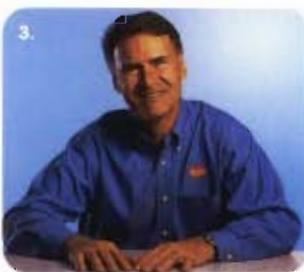
Pete: We also think we're making the right strategic bets on the growth of certain developing and start-up markets that should be very rapidly growing in the next five years—namely, KFC Europe and we're just starting in KFC Brazil.

Graham: In Western Europe, we've focused our initial investment in three important countries: France, Germany and The Netherlands. The early results in France and The Netherlands in particular underscore the consumer appeal of KFC and the unique nature of its products. Germany has been more difficult but, even there, we're getting promising results in the bigger cities. Across the three countries there are now over 70 KFC units and our expansion efforts have only just begun! We see parallel company and franchise development in these three markets as providing the springboard for more rapid penetration of other countries throughout the Continent.

ROUNDTABLE PARTICIPANTS:

From left to right, top to bottom:

1. David Novak, Yum!, Chairman and Chief Executive Officer, is the moderator of this discussion.
2. Pete Bassi, YRI, President
3. Scott Bergren, YRI, Chief Concept Officer
4. Sam Su, President, Greater China
5. Graham Allan, Managing Director, Europe



Opposite
KFC is China's #1 brand
and opened the country's
first "drive-thru" in Beijing
in 2002.

Scott: We have very large franchise businesses around the world and even though they seem to be in mature markets, we're confident they can continue their strong growth. It's counter-intuitive, but the bigger and stronger you become, the more powerful the brands and the building opportunities become. Specifically, I'm talking about Canada, Japan, Australia and a lot of Asia.

David: Talk about your approach to driving global brands.

Scott: It's not a whole lot different than what Yum! does domestically. We follow the Yum! marketing model with one global brand identity but position the brand so it's more relevant to the local markets. This way, we can work in partnership with the countries themselves to adapt the product to be more relevant to local customers. Limited time offers or flavor improvements are made at the market level. But on issues of brand identity and product segmentation, we continue to work toward a tighter integration of product and brand development between our international and domestic brands. For example, at the local level we should be using similar product descriptions in our marketing when introducing new products across the globe.

David: What makes you think we can continue to add 1,000 new units per year?

Sam: This January, we reached 800 stores in China and we are developing at a pace of 200-plus stores a year. This puts us more than 200 stores ahead of our closest competitor, McDonald's, with an ever-widening gap. But we are far from full penetration. Our Pizza Hut business has reached 100 units and is China's leading brand in the casual dining category. We are also beginning to develop a strong Pizza Hut delivery business that can be yet another major growth vehicle. Then, there is always the possibility of other new brands.

Graham: Despite a strong presence in the U.K. and its broad appeal throughout the world, KFC historically has been only a small player in the rest of Europe. The brand is represented in most Continental countries but has not achieved true scale in any single country. This gap provides us with a great opportunity for future growth. The potential market is more than 700 million people and branded quick-service restaurants are now well accepted by consumers across Europe.

Pete: We have five great brands, in addition to Multibranding opportunities, and we've really only just begun developing KFC and PH. These two brands alone have significant potential. We also have strong, dedicated leaders who are committed to developing this potential—not to mention the fact that we are the largest real estate developer in the world. And we can't forget that there is no shortage of demand for our food.

David: I know we've had a great year, but what are your greatest challenges going forward?

Pete: I'd say our greatest challenge is not to lose our focus. We have the strategy and people in place. Now we have to continue to improve year over year. We are going to be an increasingly larger percentage of Yum! profit going forward and I'm really excited about our international opportunity. The table is set for us to become the premier global restaurant company.

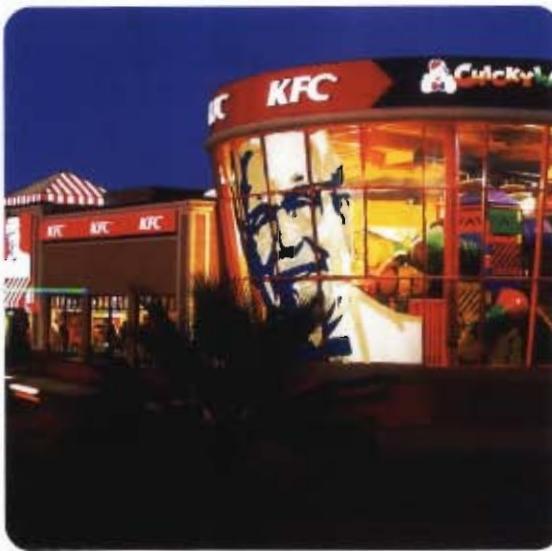
Above left Around the world Yum!'s Customer Maniacs are busy introducing exciting new products like the KFC Pocket Meal in the U.K.

Above right Celebrations marking the 100th Pizza Hut in China took place in the port city of Tienjian.

Below left This restaurant—the first KFC in Xinjiang, China—is the 667th KFC in that country.

Below right KFC Thailand celebrated Yum!'s fifth anniversary by entertaining 200 orphans from rural Thailand with cake and an appearance from Chicky, our KFC mascot.





Below left We are currently opening more than 200 restaurants each year in China. Pictured here, the first store in Shangxi Province.

Below right KFC Mexico opened this landmark 400th restaurant in Ensenada.

Bringing
branded
choice &
convenience to the
table.



TRANSFORMING THE QUICK-SERVICE CATEGORY WITH MULTIBRANDING: 1 + 1 = 3

We want to be the best in the world at providing customers branded restaurant choice. Our customers have told us very clearly that we can break away from the pack when we offer two of our great brands in the same restaurant. Oftentimes, our best ideas come from our franchisees. So we asked three of them their views on Multibranding and Customer Mania.

Aylwin: Why is Multibranding such a big idea?

Larry: (opened first Taco Bell/Long John Silver's) Multibranding has a dramatic impact on the customer. It's a barrier-breaker for families, meaning that sometimes kids like to eat different things than adults. If you've got an A&W/Long John Silver's, like we do in South Texas, you can see how it offers something for everyone. More globally, though, if you have a KFC/Taco Bell, you might get someone who wants a taco one day and who will come back the next day for chicken. When we add volume to these restaurants through Multibranding, we add incremental profits that we could not have gotten any other way. For example, if you take a good restaurant—like a \$900,000 Taco Bell—and add a \$400,000 Long John Silver's, you have added incremental profits that would be impossible to get any other way.

Jackie: (opened first KFC/A&W) Multibranding offers our customers more variety. It creates an entertaining, fun atmosphere in our restaurants for customers and Team Members and helps leverage the cost of land, buildings and equipment. That ensures us a better return on our investment. When you're adding a recognized second brand, it increases sales a lot faster than if you just add new products to your primary brand. It also broadens the customer base. We see younger people, more families and a steadier business through the whole day. Your food stays fresher, your service more consistent and you don't have to worry as much about how to schedule Team Members for the slow times of day because there aren't as many slow periods in your day.

Al: (opened first KFC/Taco Bell) Multibranding gives franchisees the option to leverage new and existing real estate in order to reach a broader customer base. For example, placing two brands under one roof in more expensive city locations helps pay the higher rent. Or, in smaller more rural areas with fewer people, the sales from two brands justify the restaurant's location, whereas the sales from one brand couldn't. The challenge Multibranding presents, however, is in the creation of great brand partnerships. The brands must complement, not compete with, one

ROUNDTABLE PARTICIPANTS:

From left to right, top to bottom:

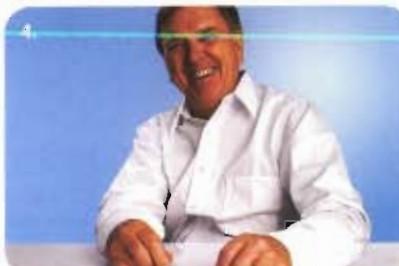
1. Aylwin Lewis, recently named President, Chief Multibranding and Operating Officer, is the moderator of this discussion.

2. Franchisee Larry Durrett, President, Southern Multifoods, Inc.

3. Franchisee Jackie Trujillo, Chairman of the Board, Harman Management Corporation.

4. Franchisee Al Luihn, CEO, Luihn Food Systems

Left: Veteran RGM Pam Jones has led her multi-branded team to beat their internal sales targets by 53%! Now that's Customer Mania!





alone we're delicious.
Together we're YUM!



Multibranding allows us to give more choice and variety to our customers. That's how we demonstrate our Customer Mania—fish, pizza, wings, burritos or chili dogs, anyone? Yum!

"MULTIBRANDING IS THE BIGGEST INNOVATION IN THE QSR INDUSTRY SINCE THE DRIVE-THRU WINDOW!"

another. Remember, the concept should be able to offer the customer a great dining experience that encourages more frequent visits.

Aylwin: What do your customers think of it?

Jackie: This is what our customers tell us: They say they love it, that they enjoy the variety, and that it helps satisfy everyone in the family. It's convenient for them because you've got two restaurants instead of one, and it's fast. That's because you've got a new store with the latest in equipment so you're able to do things faster. We are working to maximize the service time on the drive-thru to make sure customers get their food quickly. That brings the focus to everyone that quick-service is important to the customer. And when you co-brand with A&W, you can see people heading to the table with those big, frosty mug Root Beer Floats. The kids can't get enough of them. The jukebox plays nostalgic music and it's free. They love it. They can pick their own music if they want, but it plays all the time anyway. We've done some consumer insight surveys and the people interviewed have given multibranded restaurants higher ratings than just the single brands.

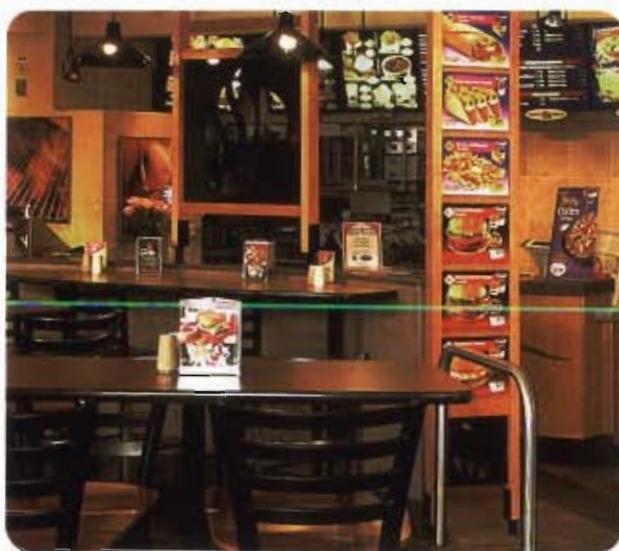
AI: Customers want and in most cases demand uncomplicated menu variety. Focus groups have told us that time and time again. An old, redundant, or boring menu offering does not connect with today's lifestyle. The concept of Multibranding is much more relevant. But the true measure of customer acceptance and enthusiasm for Multibranding can be experienced through *increased restaurant sales and more frequent core customer traffic*. Customers have told us that they appreciate a quick-service concept that offers not only quality food but also a restaurant with established brand integrity.

Larry: What I tell you is anecdotal. When you open a multibranded restaurant and the volume doubles, then your customers have told you all they can tell you. It overcomes the "veto"—there's something for everyone under one roof.

Aylwin: How do you think Multibranding is being received in the greater franchise community?

Jackie: I think most franchisees are open to and excited about the opportunity Multibranding brings to them. Franchisees I have talked to are happy with the results they have experienced with Multibranding and can see more opportunity with future growth. Multibranding helps us protect our return on investment. I'm sure that's very important to all franchisees.

Larry: I think it's like anything else. There are people in any franchise community who are entrepreneurs by nature. People who are entrepreneurial, like me, are probably going to go after this kind of idea hammer and tong and



"Yum! is focusing on improvements to both our exterior and interior image, concepting, back-of-the-house throughput systems and speed of service."



"Typically, sales rise at least 20% when a second brand is added to another Yum! Brand."

see where it takes them. It's the folks who see the possibility unfolding in front of them and jump out to make this thing work, it's these folks who will lead in Multibranding. The others will come along because this is all about making money. That's why we're in the business—we're here to increase profits.

Aylwin: How does Customer Mania impact operations?

Jackie: We think Customer Mania is a great initiative and very important to our success. We have seen improvements in operations because of Customer Mania. I've been looking at our 1-800 customer hotline calls and have noticed that our service complaints are down and I think we can continue to lower them. We think Customer Mania brings focus to why we're in business—and we're in business for the satisfaction of our customers and Team Members.

Larry: We've had an absolute blast with it. Before Customer Mania, we all understood the importance of good hospitality, but what Customer Mania does for our Team Members is make them realize that indifference to customers comes across as rudeness. What Customer Maniacs need to do is totally bury indifference and make themselves feel as if their *customers are guests in their homes*. When we explain it to Team Members like that and they try it, they become believers.

Al: Customer Mania from the restaurant point of view is contagious. I have seen managers develop their teams completely around Customer Mania. Say a Team Member shows up one morning and the manager senses that the person is not going to contribute. The RGM might tell the Team Member to take a couple of hours off, regroup and come back ready to contribute to the overall benefit of the restaurant. Customers can feel the enthusiasm of Customer Mania at the front counter, and that's why it's contagious.

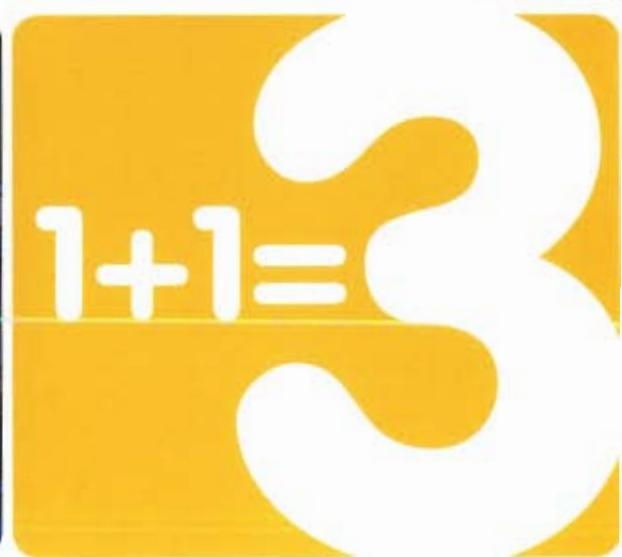
Jackie: Okay Aylwin, let me ask you one. As the President, Chief Multibranding and Operating Officer, what are the resources you're putting behind Customer Mania?

Aylwin: I'm glad you asked. We're serious about Customer Mania and we're dedicated to driving it across the system. In addition to the quarterly training in the restaurants, we're putting about 150 or so of our best managers, 30 to 40 from each of our brands, into the restaurants to inspect the stores and ensure that we are meeting or exceeding our CHAMPS standards. This "CHAMPS Excellence Review" process allows us to then sit down with the leadership and go over the results so that we can improve upon them. This represents an \$18 million commitment to ensure that our leaders get the training, support and encouragement they need to succeed. Encouragement is key. We're using this as a great way to recognize our teams and create more role models for Customer Mania.

We have
the potential
for 13,000
multibranded
units in the
U.S. alone.



Customers prefer our
multibranded restau-
rants 6 to 1 over single
branded ones.





Serving up
**100%
CHAMPS**
with a
yes!



BECOMING THE BEST RESTAURANT OPERATOR IN THE WORLD

With five great brands and over 840,000 Customer Maniacs-in-Training around the globe, we're committed to building an operating culture where everything is centered on our customers. For us, it's executing the basics, delivering 100% CHAMPS with a Yes! attitude and mindset. It's about daily energy, intensity, and a passion to take our operations to the next level of excellence. It's about jointly creating consistent performance that puts our customers first. In this roundtable, Yum!'s Aylwin Lewis, President, Chief Multibranding and Operating Officer, talks with four Restaurant General Managers to learn how Customer Maniacs think, act, and respond to the customers they love to serve. We all strive to be CHAMPS!

David: You've now instituted a global operating platform, tell our shareholders about it.

Aylwin: It's more important than ever to commit ourselves to running great restaurants better than any of our competitors. And that means increased focus on satisfying our customers and anticipating their needs. The key is Customer Mania. And the way we're driving that is through continued training and improving execution through our 100% CHAMPS with a Yes! program. We're training people four times a year, making steady progress and having fun doing it. We just need to continue to drive success at the restaurant level and get better, and better and better at satisfying our customers. Rather than me talking about it, let me ask our #1 leaders, our RGMs, how they're leading the way.

Aylwin: What were you most proud of in 2002?

Omar: Without a doubt, it was the rollout of *Customer Mania*. Once my Team Members were trained, we were ready to roll. Everyone realized it was a smart way to do business and one in which they could personally benefit as well. Several have told me that Customer Mania helped them learn to think like a customer.

Mike: CHAMPS set the standard in my restaurant several years ago, but last year we especially drove the whole CHAMPS with a Yes! attitude and that made a real difference for the team and for our customers. They both noticed the difference. It meant that the customers won—and the customer must always win.

DeVonne: Customer Mania defined a way of life in my restaurant last year. It empowered Team Members to make decisions on behalf of their customers and that empowerment created ownership by the team.

Alfredo: Customer Mania brought Team Members and RGMs closer together across the system. It certainly did in my restaurant. It helps everyone understand better what everyone else has to do to succeed and enables him or her to pitch in and help. Each also became more aware of their brand and of the importance of customers—repeat customers!

ROUNDTABLE PARTICIPANTS:

From left to right, top to bottom:

1. Aylwin Lewis, President, Chief Multibranding and Operating Officer is the moderator of this discussion.
2. Alfredo Arroyo, RGM
3. DeVonne Waters, RGM
4. Mike Nunez, RGM
5. Omar Gaines, RGM

Left: Pizza Hut RGM Todd Exley is leading his team to perfect CHAMPS scores, while driving his same store sales \$19,000 a week! 2JR Pizza Enterprises



As President, Chief Multibranding and Operating Officer, Aylwin regularly holds roundtable discussions with RGMs. Here's one he recently had with several Taco Bell RGMs in Florida.

Below "Since the roll-out of our Customer Mania training program, I've noticed a difference in our Team Members. They really understand what it means to put the customer first. I really think they feel they can each make our customers' experience in our store the best it can be."

Cheryl Richardson, RGM
Pizza Hut/Taco Bell



Left "Customer Mania makes this an exciting place to work and an exciting place to serve customers. I love talking to our customers. When they smile, it makes us smile too. It has brought us closer to our customers and to each other. People take more pride in their work and have more fun doing it."

Josh Dringenberg, Team Member
KFC, Harman Management



"Customer Mania to me means that a smile is the first thing they see. I take great pride in making sure my customers feel at home."

Kelly Holsclaw, Team Member
Long John Silver's/A&W



Aylwin: What is the toughest part of your job?

Alfredo: When we're busy it's great. Everyone is in place; they've been fully cross-trained to step in and take over when someone else on the team needs help. The drive-thru is zipping along, the lobby is full and the orders are flying. That's what makes our job the most fulfilling. The toughest part of the job is managing hours when sales are slower—typically late afternoon between lunch and dinner crowds. If you don't watch it, that's when the team can lose its focus.

Mike: You know, as a manager, you have to practice Customer Mania with the customers but you have to practice it with your Team Members, too. You have to be just as alert to their needs as you do your customers' needs. It can be a pretty tough balancing act sometimes.

DeVonne: The job of an RGM is incredibly complex sometimes and you are the one who has to deal with all the challenges—from personnel to operations, you have to make sure everything works right all the time. I'd say just being the one who makes sure the place keeps hopping is the toughest part of my job.

Aylwin: How are you reducing Team turnover to drive more consistency for our customers?

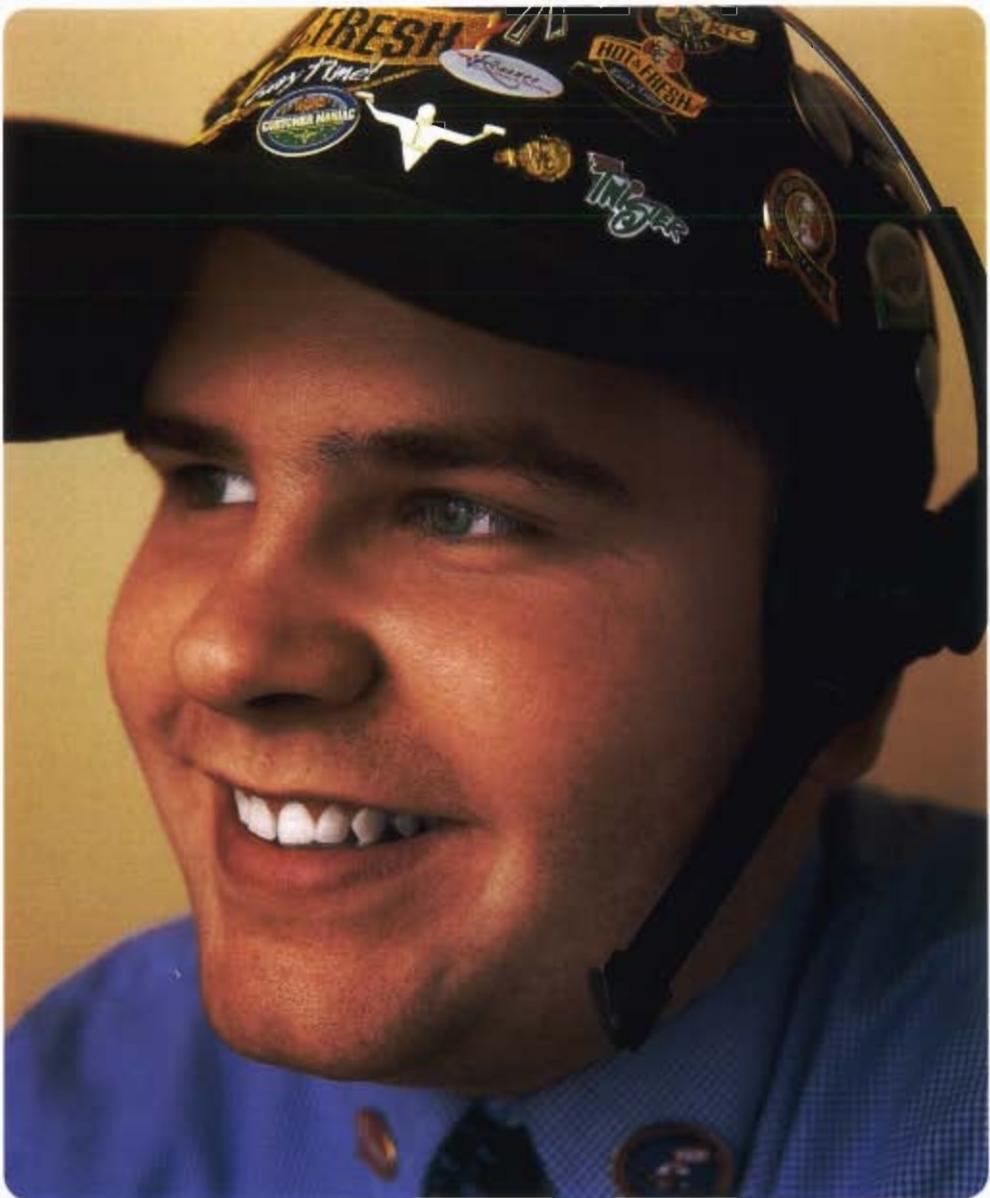
Mike: Customer Mania has provided us with a super edge in hiring great Team Members and in keeping the great ones we've put so much effort into training. We're building a reward and recognition culture, one that gets our team pumped up and excited about satisfying each and every customer. It's a great culture we're creating and it makes a big difference in the store day to day and makes people want to stay.

Alfredo: I agree. We have a very positive attitude in our restaurant, due largely to Customer Mania. My job is different with Customer Mania and the Team Members feel more positive about their jobs too. Not having to constantly deal with turnover issues has made me a better manager.

"CUSTOMER MANIA

TRAINING was kind of challenging—and fun. The bottom line is it made me feel empowered—I'm a professional! And I know I can make my customers' experiences the best they can be. And I train my team to do the same, every day."

Bruce Taylor, Assistant Manager,
KFC/Long John Silver's



DeVonne: Selection is the key, I think. When it comes to hiring great new Customer Maniacs, I go through 50 applications just to get one Team Member. It's a time-consuming, always-uncertain process. I would much rather put extra efforts into making sure my existing Team Members are happy and fulfilled in their jobs.

Omar: It's about love. Love your people...love your customers...show it every day.

Aylwin: How important was the Speed of Service focus to you in 2002?

Alfredo: We used the Speed of Service tools that the company provided us with and they made a difference. Having the tools is one thing, knowing how and when to apply them is another. I think we have developed some excellent processes for applying these tools and I think the results show up at the drive-thru window every day.

Omar: The customer is sitting out there in the drive-thru watching the clock in his car tick by. If you can shave a second or two off every order you not only make those individual customers happy, it can mean thousands of dollars to your restaurant over the course of a year.

DeVonne: We have contests in our restaurant for the most cars and the most transactions coming through the drive-thru. I find that's a great way to motivate Team Members to increase the Speed of Service. It's just one more way we're putting our customers first.

Aylwin: What are some of the critical operational tools that will help us get better and better and better at satisfying our customers?

Mike: I really like the Balanced Scorecard. It helps us focus on our performance and get better and better in four key areas: people, customers, sales growth and profits. When we use it, we can get critical information that can



Left "Customer Mania is giving 100% of your energy and enthusiasm to making your customers 100% satisfied—every hour, every day."

**Joe Gootee, Assistant Manager
Long John Silver's/A&W**



Above "I have fun and love the people I work with. As a Team Member, I love feeling that I can make a difference. And I can. Our Customer Mania training taught us that. It's also about being polite to the customer and trying to make them feel that he or she is our #1 priority."

**Elizabeth Parkerson, Team Member,
Taco Bell, Southern Multifoods Inc.**

Below "I'm proud of my work. I make sure that every piece of chicken I fry and every product I make is delicious. That's because I know that what I'm doing back here is being so well received out in the dining room. And that to me is what it means to be a Customer Maniac."

**Amadou Gouzae, Cook,
KFC/A&W, Luihn Food Systems**



help us run our restaurants better. We talked about reducing turnover earlier, and I think the Balanced Scorecard is another great tool we can use to reduce turnover.

DeVonne: I agree. It really helps us target our progress. We know exactly where we're doing well, and where we need to focus more of our attention. Now that we're doing CER (CHAMPS Excellence Review), I think Team Members are even more aware of Customer Mania and its importance. We don't know when a CER visit is going to happen, so we've got to be on our toes all the time. And when we get the results back from the visit, we always sit down and go over them carefully to make sure we're executing against our standards and delivering on our 100% CHAMPS with a Yes! program.

Omar: The unannounced visits really are a great training tool and great way to recognize my team. I use them as a chance to pat my people on the back and show them how important they are. And that I care about them. My team is important to me. I really like seeing the increased focus on Team Member training and the fact that we're training more frequently. It makes us better able to give our customers what they want. And that's what it's all about. Giving our people the confidence to handle every situation and get better and better at serving our customers.

Aylwin: It just shows you, with people like this running our restaurants, putting their capability first and the capability of all our people in the system first, satisfied customers will follow and our company will make more money. That's our formula for success.

YUM! AT-A-GLANCE

U.S. Sales by Daypart

(% of Traffic)



- Dinner 54%
- Lunch 37%
- Snacks/Breakfast 9%

U.S. Sales by Distribution Channel

(% of Traffic)



- Dine Out 80%
- Dine In 20%



- Dinner 62%
- Lunch 26%
- Snacks/Breakfast 12%



- Dine Out 74%
- Dine In 26%



- Dinner 41%
- Lunch 44%
- Snacks/Breakfast 15%



- Dine Out 74%
- Dine In 26%



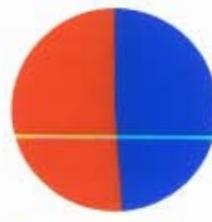
- Dinner 50%
- Lunch 50%



- Dine Out 58%
- Dine In 42%

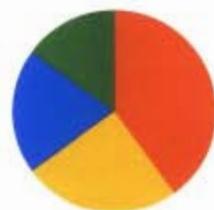


- Dinner 26%
- Lunch 47%
- Snacks/Breakfast 27%



- Dine Out 48%
- Dine In 52%

Sources of System Sales in International Restaurants*



- Asia-Pacific 40%
- Europe, South Africa 25%
- Americas 20%
- Greater China 15%

SOURCE: CREST

* System sales represents the combined sales of Company, unconsolidated affiliates, franchise and license restaurants.

Alone we're delicious. Together we're Yum!

In 2002, we expanded our portfolio of category-leading brands by acquiring Long John Silver's and A&W All-American Food Restaurants to drive our Multibranding leadership. Now four of our brands—KFC, Pizza Hut, Taco Bell and Long John Silver's—are the global leaders of the chicken, pizza, Mexican-style food and quick-service seafood categories, respectively. And A&W All-American Food has been serving a signature frosty mug Root Beer Float and all-American pure-beef hamburgers and hot dogs since 1919, making it the longest running quick-service franchise chain in America. To better reflect this expanded portfolio and our New York Stock Exchange ticker symbol (NYSE:YUM), we received shareholder approval to change our corporate name to Yum! Brands from Tricon Global Restaurants.

HERE'S HOW WE SET OUR TABLE IN 2002:



TACO BELL Taco Bell had outstanding results in 2002, with a 7% increase in company same store sales, marking 17 consecutive periods of growth. Customer compliments also increased as we improved our speed of service and reduced turnover of our Restaurant General Managers and Team Members. Our "Think Outside the Bun" advertising campaign helped introduce America to some hit products, including delicious Border Bowls, Fajita Grilled Stuff Burritos and 7-Layer Nachos. Our customers took notice, and Taco Bell moved up to third place from fifth in QSR magazine's annual drive-thru survey of the top 25 quick-service restaurant brands (in 2000, Taco Bell placed 14th, so that's huge progress!). — *Emil Brolick, President and Chief Concept Officer*



KFC KFC also improved operations by launching "Hot & Fresh," serving great-tasting, home-style meals hotter and fresher than ever before. Honey BBQ and Spicy BBQ wings led sales in early 2002, followed by Popcorn Chicken in the summertime. And, we began serving our meals in deep three-section plates—differentiating KFC from fast food and underscoring our "There's fast food. Then there's KFC" advertising campaign with celebrity Jason Alexander. Finally, our CHAMPS scores have improved to their highest levels yet as we train our employees to have a Customer Mania mindset. We are not satisfied however, with our flat sales in 2002, and are focused on the right growth initiatives to return to positive sales in 2003 and beyond. — *Cheryl Bachelder, President and Chief Concept Officer*



PIZZA HUT In 2002, sales at Pizza Hut were flat, however we know we're capable of improving our performance. This past year, we continued to innovate and lead the pizza category by introducing two great new products. The portable P'Zone—a pizza that eats like a sandwich—and the ultimate Chicago Dish Pizza—so deep, you need a fork to eat it! At the same time, Pizza Hut's customer satisfaction scores improved, with better delivery times and record-high CHAMPS scores. We also reduced Restaurant General Manager turnover by 15%, and Team Member turnover dropped to an all-time low of 112%—now that's how we'll get to CHAMPS with a Yes! 100% of the time. — *Peter Hearl, President and Chief Concept Officer*



LONG JOHN SILVER'S With 33% market share and over 1,200 restaurants in the U.S., Long John Silver's is the leader in the quick-service seafood segment. In 2002, we featured our hand-dipped, signature fish and shrimp, with our value-packed Boatload of Seafood Variety Platter and Seafood Basket Combos. Our new national advertising campaign reminds everyone if there is a Long John Silver's nearby, it's "Seafood Country." It's no wonder we're America's favorite place for seafood! Stop by and ring the bell! — *Steve Davis, President*



A&W ALL-AMERICAN FOOD At A&W, we improved the quality of our offerings and introduced America to two hot products that drove sales: the Velveeta burger, a cheeseburger with lots and lots and lots of delicious Velveeta cheese, and the Texas Toast BLT, a sandwich piled high with bacon, lettuce, tomato and served on thick Texas Toast. With real jukebox music and a frosty mug A&W Root Beer Float in hand, our customers love the nostalgia as much as our delicious 100% U.S. beef burgers, coney dogs, french fries and onion rings. — *Kevin Bazner, President*

With great food, and the opportunity to provide more choice and convenience by placing two of these brands under one roof, you can see why the world is saying Yum!

THE DISH:

So thick, you need a fork to enjoy our new Chicago-style pizza—The Dish. The thick, flaky crust is golden and slightly crisped outside and filled with layer upon layer of delicious cheese and toppings inside.



HOME-STYLE MEALS:

KFC's advantage is that it offers a satisfying, complete meal—perfect for moms who care about the meals they serve their family.



FAJITA GRILLED STUFF BURRITO: Sizzling strips of marinated steak, grilled veggies and all the great fajito flavors wrapped up in a grilled tortilla.



DELUXE BACON

CHEESEBURGER: This all-American classic is so thick and juicy you'll need two hands to hold it. Pair it with a cool and frosty mug A&W Root Beer Float and there's only one word for it:

Yum!



FISH PLATTER:

It's hard to resist our hand-dipped, freshly prepared fish, chicken and shrimp in our one-of-a-kind, signature batter—sure to give every bite that delicious crunch.

BRANDED CHOICE IN ALL MAJOR CATEGORIES!

YUM! FACTS

WORLDWIDE SYSTEM UNITS

Year-end	2002	2001	2000	1999	1998	5-year growth ^(a)
United States						
KFC	5,472	5,399	5,364	5,231	5,105	1%
Pizza Hut	7,599	7,719	7,927	8,084	8,412	(3%)
Taco Bell	6,165	6,444	6,746	6,879	6,852	(2%)
Long John Silver's	1,221					NM
A&W	665					NM
Total U.S.	21,126	19,562	20,037	20,194	20,369	(1%)
International						
KFC	6,890	6,416	5,974	5,595	5,318	6%
Pizza Hut	4,431	4,272	4,157	3,961	3,873	3%
Taco Bell	267	239	249	232	203	3%
Long John Silver's	28					NM
A&W	182					NM
Total International	11,798	10,927	10,380	9,788	9,394	5%
Total	32,924	30,489	30,417	29,982	29,763	1%

(a) Compounded annual growth rate; Total U.S., International and Worldwide exclude the impact of Long John Silver's and A&W for 2002.

(b) Compounded annual growth rate excludes the impact of transferring 30 units from Taco Bell U.S. to Taco Bell International in 2002.

BREAKDOWN OF WORLDWIDE SYSTEM UNITS

Year-end 2002	Company	Unconsolidated Affiliate	Franchised	Licensed	Total
United States					
KFC	1,284	—	4,140	48	5,472
Pizza Hut	1,760	—	4,743	1,096	7,599
Taco Bell	1,284	—	3,759	1,122	6,165
Long John Silver's	741	—	480	—	1,221
A&W	124	—	541	—	665
Total U.S. ^(a)	5,193	4	13,663	2,266	21,126
International					
KFC	1,516	1,175	4,156	43	6,890
Pizza Hut	779	941	2,557	154	4,431
Taco Bell	38	28	138	63	267
Long John Silver's	—	—	28	—	28
A&W	—	—	182	—	182
Total International	2,333	2,144	7,061	260	11,798
Total	7,526	2,148	20,724	2,526	32,924

(a) Includes 4 Yan Can units.

WORLDWIDE UNITS

In thousands, year-end 2002



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

On May 16, 2002, TRICON Global Restaurants, Inc. changed its name to YUM! Brands, Inc. in order to better reflect our expanding portfolio of brands. In addition, on the same day, Tricon Restaurants International changed its name to YUM! Restaurants International.

YUM! Brands, Inc. and Subsidiaries (collectively referred to as "YUM" or the "Company") comprises the worldwide operations of KFC, Pizza Hut, Taco Bell, Long John Silver's ("LJS") and A&W All-American Food Restaurants ("A&W") (collectively "the Concepts") and is the world's largest quick service restaurant ("QSR") company based on the number of system units. LJS and A&W were added when YUM acquired Yorkshire Global Restaurants, Inc. ("YGR") on May 7, 2002. Separately, KFC, Pizza Hut and Taco Bell rank in the top ten among QSR chains in U.S. system sales and units. With 11,798 international units, YUM is the second largest QSR company outside the U.S. YUM became an independent, publicly owned company on October 6, 1997 (the "Spin-off Date") via a tax-free distribution of our Common Stock (the "Distribution" or "Spin-off") to the shareholders of our former parent, PepsiCo, Inc. ("PepsiCo").

Throughout Management's Discussion and Analysis ("MD&A"), we make reference to ongoing operating profit which represents our operating profit excluding the impact of facility actions net loss (gain) and unusual items income (expense). See Note 7 to the Consolidated Financial Statements for a detailed discussion of these exclusions. We use ongoing operating profit as a key performance measure of our results of operations for purposes of evaluating performance internally. Ongoing operating profit is not a measure defined in accounting principles generally accepted in the United States of America and should not be considered in isolation or as a substitute for measures of performance in accordance with accounting principles generally accepted in the United States of America.

All references to per share and share amounts in the following MD&A have been adjusted to reflect the two-for-one stock split distributed on June 17, 2002.

In 2002, our international business, YUM! Restaurants International ("YRI" or "International") accounted for 35% of system sales, 31% of revenues and 32% of ongoing operating profit excluding unallocated and corporate expenses. We anticipate that, despite the inherent risks and typically higher general and administrative expenses required by international operations, we will continue to invest in certain international markets with substantial growth potential.

This MD&A should be read in conjunction with our Consolidated Financial Statements on pages 44 through 47 and the Cautionary Statements on page 43. All Note references herein refer to the Notes to the Consolidated Financial Statements on pages 48 through 72. Tabular amounts are displayed in millions except per share and unit count amounts, or as otherwise specifically identified.

CRITICAL ACCOUNTING POLICIES

Our reported results are impacted by the application of certain accounting policies that require us to make subjective or complex judgments. These judgments involve estimations of the effect of matters that are inherently uncertain and may significantly impact our quarterly or annual results of operations or financial condition. Changes in the estimates and judgments could significantly affect our results of operations, financial condition and cash flows in future years. A description of what we consider to be our most significant critical accounting policies follows.

Impairment or Disposal of Long-Lived Assets

We evaluate our long-lived assets for impairment at the individual restaurant level. Restaurants held and used are evaluated for impairment on a semi-annual basis or whenever events or circumstances indicate that the carrying amount of a restaurant may not be recoverable (including a decision to close a restaurant). Our semi-annual test includes those restaurants that have experienced two consecutive years of operating losses. These impairment evaluations require an estimation of cash flows over the remaining useful life of the primary asset of the restaurant, which can be for a period of over 20 years, and any terminal value. We limit assumptions about important factors such as sales growth and margin improvement to those that are supportable based upon our plans for the unit and actual results at comparable restaurants.

If the long-lived assets of a restaurant on a held and used basis are not recoverable based upon forecasted, undiscounted cash flows, we write the assets down to their fair value. This fair value is determined by discounting the forecasted cash flows, including terminal value, of the restaurant at an appropriate rate. The discount rate used is our cost of capital, adjusted upward when a higher risk is believed to exist.

When it is probable that we will sell a restaurant we write down the restaurant to its fair value. We often rebrand restaurants in groups and therefore perform impairment evaluations at the group level. Fair value is based on the expected sales proceeds less applicable transaction costs. Estimated sales proceeds are based on the most relevant of historical sales multiples or bids from buyers, and have historically been reasonably accurate estimations of the proceeds ultimately received.

See Note 2 for a further discussion of our policy regarding the impairment or disposal of long-lived assets.

Impairment of Investments in Unconsolidated Affiliates

We record impairment charges related to an investment in an unconsolidated affiliate whenever events or circumstances indicate that a decrease in the value of an investment has occurred which is other than temporary. In addition, we evaluate our investments in unconsolidated affiliates for impairment when they have experienced two consecutive years of operating losses. Our

impairment measurement test for an investment in an unconsolidated affiliate is similar to that for our restaurants except that we use discounted cash flows after interest and taxes instead of discounted cash flows before interest and taxes as used for our restaurants.

See Note 2 for a further discussion of our policy regarding the impairment of investments in unconsolidated affiliates.

Impairment of Goodwill

We evaluate goodwill for impairment on an annual basis through the comparison of fair value of our reporting units to their carrying values. Our reporting units are our operating segments in the U.S. and our business management units internationally (typically individual countries). Fair value is the price a willing buyer would pay for the reporting unit, and is generally estimated by discounting expected future cash flows from the reporting units over twenty years plus an expected terminal value. We limit assumptions about important factors such as sales growth and margin improvement to those that are supportable based upon our plans for the reporting unit.

We impaired \$5 million of goodwill during 2002 related to our Pizza Hut France reporting unit. For the remainder of our reporting units with goodwill, the fair value is generally significantly in excess of the recorded carrying value. Thus, we do not believe that we have material goodwill that is at risk to be impaired given current business performance.

See Note 2 for a further discussion of our policies regarding goodwill.

Allowances for Franchise and License Receivables and Contingent Liabilities

We reserve a franchisee's or licensee's entire receivable balance based upon pre-defined aging criteria and upon the occurrence of other events that indicate that we may not collect the balance due. As a result of reserving using this methodology, we have an immaterial amount of receivables that are past due that have not been reserved for at December 28, 2002. See Note 2 for a further discussion of our policies regarding franchise and license operations.

Primarily as a result of our refranchising efforts, we remain liable for certain lease assignments and guarantees. We record a liability for our exposure under these lease assignments and guarantees when such exposure is probable and estimable. At December 28, 2002, we have recorded an immaterial liability for our exposure which we consider to be probable and estimable. The potential total exposure under such leases is significant, with \$278 million representing the present value of the minimum payments of the assigned leases at December 28, 2002, discounted

at our pre-tax cost of debt. Current franchisees are the primary lessees under the vast majority of these leases. We generally have cross-default provisions with these franchisees that would put them in default of their franchise agreement in the event of non-payment under the lease. We believe these cross-default provisions significantly reduce the risk that we will be required to make payments under these leases and, historically, we have not been required to make such payments in significant amounts. See Note 24 for a further discussion of our lease guarantees.

Self-Insured Property and Casualty Losses

We record our best estimate of the remaining cost to settle incurred self-insured property and casualty claims. The estimate is based on the results of an independent actuarial study and considers historical claim frequency and severity as well as changes in factors such as our business environment, benefit levels, medical costs and the regulatory environment that could impact overall self-insurance costs. Additionally, a risk margin to cover unforeseen events that may occur over the several years it takes for claims to settle is included in our reserve, increasing our confidence level that the recorded reserve is adequate.

See Note 24 for a further discussion of our insurance programs.

Income Tax Valuation Allowances and Tax Reserves

At December 28, 2002, we have recorded a valuation allowance of \$137 million primarily to reduce our net operating loss and tax credit carryforwards of \$176 million to an amount that will more likely than not be realized. These net operating loss and tax credit carryforwards exist in many state and foreign jurisdictions and have varying carryforward periods and restrictions on usage. The estimation of future taxable income in these state and foreign jurisdictions and our resulting ability to utilize net operating loss and tax credit carryforwards can significantly change based on future events, including our determinations as to the feasibility of certain tax planning strategies. Thus, recorded valuation allowances may be subject to material future changes.

As a matter of course, we are regularly audited by federal, state and foreign tax authorities. We provide reserves for potential exposures when we consider it probable that a taxing authority may take a sustainable position on a matter contrary to our position. We evaluate these reserves, including interest thereon, on a quarterly basis to insure that they have been appropriately adjusted for events that may impact our ultimate payment for such exposures.

See Note 22 for a further discussion of our income taxes.

FACTORS AFFECTING COMPARABILITY OF 2002 RESULTS TO 2001 RESULTS AND 2001 RESULTS TO 2000 RESULTS

YGR Acquisition

On May 7, 2002, the Company completed its acquisition of YGR, the parent company of LIS and A&W. See Note 4 for a discussion of the acquisition.

As of the date of the acquisition, YGR consisted of 742 and 496 company and franchise LIS units, respectively, and 127 and 742 company and franchise A&W units, respectively. In addition, 133 multibranded LIS/A&W restaurants were included in the LIS unit totals. Except as discussed in certain sections of the MD&A, the impact of the acquisition on our results of operations in 2002 was not significant.

Impact of Recently Adopted Accounting Pronouncement

Effective December 30, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), in its entirety. In accordance with the requirements of SFAS 142, we ceased amortization of goodwill and indefinite-lived intangibles as of December 30, 2001. The following table summarizes the favorable effect of SFAS 142 on restaurant profit, restaurant margin and ongoing operating profit had SFAS 142 been effective in 2001.

	Year Ended December 29, 2001		
	U.S.	International	Worldwide
Restaurant profit	\$ 21	\$ 11	\$ 32
Restaurant margin (%)	0.5	0.6	0.5
Ongoing operating profit	\$ 22	\$ 16	\$ 38

Additionally, if SFAS 142 had been effective in 2001, reported net income would have increased approximately \$26 million and diluted earnings per common share ("EPS") would have increased \$0.09.

Unusual Items (Income) Expense

We recorded unusual items income of \$27 million in 2002 and \$3 million in 2001 and unusual items expense of \$204 million in 2000. See Note 7 for a detailed discussion of our unusual items (income) expense.

Impact of New Unconsolidated Affiliates

Consistent with our strategy to focus our capital on key international markets, we formed ventures in Canada and Poland with our largest franchisee in each market. The venture in Canada was formed in the third quarter of 2000 and the venture in Poland was

effective in the first quarter of 2001. At the date of formation, the Canadian venture operated over 700 stores and the Poland venture operated approximately 100 stores. We did not record any gain or loss on the transfer of assets to these new ventures.

Previously, the results from the restaurants we contributed to these ventures were consolidated. The impact of these transactions on operating results is similar to the impact of our refranchising activities, which is described in the Store Portfolio Strategy section below. Consequently, these transactions resulted in a decline in our Company sales, restaurant margin dollars and general and administrative ("G&A") expenses as well as higher franchise fees. We also record equity income (loss) from investments in unconsolidated affiliates ("equity income") and, in Canada, higher franchise fees since the royalty rate was increased for those stores contributed by our partner to the venture. The formation of these ventures did not have a significant net impact on ongoing operating profit in 2001.

Store Portfolio Strategy

Since 1995, we have been strategically reducing our share of total system units by selling Company restaurants to existing and new franchisees where their expertise can generally be leveraged to improve the restaurants' overall operating performance, while retaining Company ownership of key U.S. and International markets. This portfolio-balancing activity reduces our reported revenues and restaurant profits, which increases the importance of system sales as a key performance measure. We substantially completed our U.S. refranchising program in 2001.

The following table summarizes our refranchising activities:

	2002	2001	2000
Number of units refranchised	174	233	757
Refranchising proceeds, pre-tax	\$ 81	\$ 111	\$ 381
Refranchising net gains, pre-tax ^(a)	\$ 19	\$ 39	\$ 200

^(a) 2001 includes \$12 million of previously deferred refranchising gains and a charge of \$11 million to mark to market the net assets of our Singapore business, which was sold during 2002 at a price approximately equal to its carrying value.

In addition to our refranchising program, we have closed certain restaurants over the past several years. Restaurants closed include poor performing restaurants, restaurants relocated to a new site within the same trade area or U.S. Pizza Hut delivery units consolidated with a new or existing dine-in traditional store within the same trade area.

The following table summarizes Company store closure activities:

	2002	2001	2000
Number of units closed	224	270	208
Store closure costs	\$ 15	\$ 17	\$ 10
Impairment charges for stores to be closed	\$ 9	\$ 5	\$ 6

The impact on ongoing operating profit arising from our refranchising and store closure initiatives as well as the contribution of Company stores to new unconsolidated affiliates is the net of (a) the estimated reduction in Company sales, restaurant profit and G&A expenses; (b) the estimated increase in franchise fees from the stores rebranded; and (c) the estimated change in equity income (loss). The amounts presented below reflect the estimated impact from stores that were operated by us for all or some portion of the respective previous year and were no longer operated by us as of the last day of the respective year.

The following table summarizes the estimated impact on revenue of refranchising, Company store closures and, in 2001, the contribution of Company stores to unconsolidated affiliates:

	2002		
	U.S.	International	Worldwide
Decreased sales	\$ (214)	\$ (90)	\$ (304)
Increased franchise fees	4	4	8
Decrease in total revenues	\$ (210)	\$ (86)	\$ (296)

	2001		
	U.S.	International	Worldwide
Decreased sales	\$ (483)	\$ (243)	\$ (726)
Increased franchise fees	21	13	34
Decrease in total revenues	\$ (462)	\$ (230)	\$ (692)

The following table summarizes the estimated impact on ongoing operating profit of refranchising, Company store closures and, in 2001, the contribution of Company stores to unconsolidated affiliates:

	2002		
	U.S.	International	Worldwide
Decreased restaurant margin	\$ (23)	\$ (5)	\$ (28)
Increased franchise fees	4	4	8
Decreased G&A	1	2	3
(Decrease) increase in ongoing operating profit	\$ (18)	\$ 1	\$ (17)

	2001		
	U.S.	International	Worldwide
Decreased restaurant margin	\$ (67)	\$ (25)	\$ (92)
Increased franchise fees	21	13	34
Decreased G&A	5	13	18
Decreased equity income	—	(5)	(5)
Decrease in ongoing operating profit	\$ (41)	\$ (4)	\$ (45)

Franchisee Financial Condition

Like others in the QSR industry, from time to time, some of our franchise operators experience financial difficulties with respect to their franchise operations.

Depending upon the facts and circumstances of each situation, and in the absence of an improvement in the franchisee's business trends, there are a number of potential resolutions of these financial issues. These include a sale of some or all of the operator's restaurants to us or a third party, a restructuring of the operator's business and/or finances, or, in the more unusual cases, bankruptcy of the operator. It is our practice to proactively work with financially troubled franchise operators in an attempt to positively resolve their issues.

Since 2000, certain of our franchise operators, principally in the Taco Bell system, have experienced varying degrees of financial problems. Through December 28, 2002, restructurings have been completed for approximately 1,778 Taco Bell franchise restaurants. In connection with these restructurings, Taco Bell has acquired 147 restaurants for approximately \$76 million. In addition to these acquisitions, Taco Bell has purchased land, buildings and/or equipment related to 52 restaurants from franchisees for approximately \$28 million and simultaneously leased it back to these franchisees under long-term leases. As part of the restructurings, Taco Bell committed to fund approximately \$45 million of future franchise capital expenditures, principally through leasing arrangements, approximately \$26 million of which has been funded through December 28, 2002. We substantially completed the Taco Bell franchisee restructurings in 2002 and expect to finalize any remaining restructurings in the first quarter of 2003.

In the fourth quarter of 2000, Taco Bell also established a \$15 million loan program to assist certain franchisees. All fundings had been advanced by the end of the first quarter of 2001. A remaining net balance of \$7 million at December 28, 2002 for these notes receivable is included primarily in other assets.

We believe that the general improvement in business trends at Taco Bell has helped alleviate financial problems in the Taco Bell franchise system which were due to past downturns in sales. As described in the U.S. revenues section, Company same-store sales growth at Taco Bell increased 7% in 2002. This follows an 8% increase in Company same-store sales growth at Taco Bell in the fourth quarter of 2001. Generally, franchisees have experienced similar or better growth over these time frames. Accordingly, the cost of restructurings of Taco Bell franchise restaurants was less in 2002 than in 2001 and, though we continue to monitor this situation, we expect these costs to be less again in 2003.

In 2002 and 2001, the Company charged expenses of \$8 million and \$18 million, respectively, to ongoing operating profit related to allowances for doubtful Taco Bell franchise and license fee receivables. These costs are reported as part of franchise and license expenses. On an ongoing basis, we assess our exposure from franchise-related risks, which include estimated uncollectibility of franchise and license receivables, contingent lease liabilities, guarantees to support third party financial arrangements of franchisees and potential claims by franchisees. The contingent lease liabilities and guarantees are more fully discussed in the Lease Guarantees section of Note 24. Although the ultimate impact of these franchise financial issues cannot be predicted with certainty at this time, we have provided for our current estimate of the probable exposure as of December 28, 2002. It is reasonably possible that there will be additional costs; however, these costs are not expected to be material to quarterly or annual results of operations, financial condition or cash flows.

Impact of AmeriServe Bankruptcy Reorganization Process

See Note 25 for a discussion of the impact of the AmeriServe Food Distribution, Inc. ("AmeriServe") bankruptcy reorganization process on the Company.

Impact of the Consolidation of an Unconsolidated Affiliate

At the beginning of 2001, we consolidated a previously unconsolidated affiliate in our Consolidated Financial Statements as a result of a change in our intent to temporarily retain control of this affiliate. As a result of this change, Company sales, restaurant margin and G&A increased approximately \$100 million, \$6 million and \$9 million, respectively, in 2001. Also as a result of the change, franchise fees and equity income decreased approximately \$4 million and \$2 million, respectively, in 2001. At the date of consolidation, this previously unconsolidated affiliate operated over 100 stores.

Fifty-third Week in 2000

Our fiscal calendar results in a fifty-third week every 5 or 6 years. Fiscal year 2000 included a fifty-third week in the fourth quarter. The estimated favorable impact in net income was \$10 million or \$0.03 per diluted share in 2000. The following table summarizes the estimated favorable/(unfavorable) impact of the fifty-third week on system sales, revenues and ongoing operating profit in 2000:

	U.S.	International	Unalloc- ated	Total
System sales	\$ 230	\$ 65	\$ —	\$ 295
Revenues				
Company sales	\$ 58	\$ 18	\$ —	\$ 76
Franchise fees	9	2	—	11
Total revenues	\$ 67	\$ 20	\$ —	\$ 87
Ongoing operating profit				
Franchise fees	\$ 9	\$ 2	\$ —	\$ 11
Restaurant margin	11	4	—	15
General and administrative expenses	(3)	(2)	(2)	(7)
Ongoing operating profit	\$ 17	\$ 4	\$ (2)	\$ 19

The Company's next fiscal year with fifty-three weeks will be 2005.

WORLDWIDE RESULTS OF OPERATIONS

	2002	% BIW vs. 2001	2001	% BIW vs. 2000
Revenues				
Company sales	\$ 6,891	12	\$ 6,138	(3)
Franchise and license fees	866	6	815	3
Total revenues	\$ 7,757	12	\$ 6,953	(2)
Company restaurant margin	\$ 1,101	22	\$ 906	(5)
% of Company sales	16.0%	1.2^{pps.}	14.8%	10.3 ^{pps.}
Ongoing operating profit	\$ 1,035	16	\$ 889	—
Facility actions net (loss) gain	(32)	NM	(11)	NM
Unusual items income	27	NM	3	NM
Operating profit	1,030	16	891	4
Interest expense, net	172	(8)	158	10
Income tax provision	275	(15)	241	11
Net income	\$ 583	18	\$ 492	19
Diluted earnings per share ^(a)	\$ 1.88	16	\$ 1.62	17

(a) See Note 6 for the number of shares used in this calculation. See Note 12 for a discussion of the pro-forma impact of SFAS 142 on EPS in 2001.

WORLDWIDE RESTAURANT UNIT ACTIVITY

	Company	Affiliates	Franchisees	Licenses	Total
Balance at Dec. 30, 2000	6,123	1,844	19,287	3,163	30,417
New Builds	521	150	818	190	1,679
Acquisitions	361	(28)	(328)	151	—
Refranchising	(233)	(20)	253	—	—
Closures	(270)	(39)	(741)	(557)	(1,607)
Other ^(a)	167	93	(26)	—	—
Balance at Dec. 29, 2001	6,435	2,000	19,263	2,791	30,489
New Builds	585	165	748	146	1,644
Acquisitions ^(b)	905	41	1,164	(3)	2,107
Refranchising	(174)	(14)	188	—	—
Closures	(224)	(46)	(649)	(409)	(1,328)
Other	(11)	2	10	1	12
Balance at Dec. 28, 2002	7,526	2,148	20,724	2,526	32,924
% of Total	23%	6%	63%	8%	100%

(a) Primarily includes 52 Company stores and 41 franchisee stores contributed to an unconsolidated affiliate in 2001.

(b) Includes units that existed at the date of the acquisition of YGR on May 7, 2002.

WORLDWIDE SYSTEM SALES

System sales represents the combined sales of Company, unconsolidated affiliates, franchise and license restaurants. Sales of unconsolidated affiliates and franchise and license restaurants result in franchise and license fees for us but are not included in the Company sales figure we present on the Consolidated Statements of Income. However, we believe that system sales is useful to investors as a significant indicator of our Concepts' market share and the overall strength of our business as it incorporates all of our revenue drivers, company and franchise same store sales as well as net unit development.

	2002	% B/W vs. 2001	2001	% B/W vs. 2000
System sales	\$ 24,219	8	\$ 22,328	1

System sales increased approximately \$1,891 million or 8% in 2002. The impact from foreign currency translation was not significant. Excluding the favorable impact of the YGR acquisition, system sales increased 5%. The increase resulted from new unit development and same store sales growth, partially offset by store closures.

System sales increased \$169 million or 1% in 2001, after a 2% unfavorable impact from foreign currency translation. Excluding the unfavorable impact of foreign currency translation and lapping the fifty-third week in 2000, system sales increased 5%. This increase was driven by new unit development and same store sales growth, partially offset by store closures.

WORLDWIDE REVENUES

Company sales increased \$753 million or 12% in 2002. The impact from foreign currency translation was not significant. Excluding the favorable impact of the YGR acquisition, Company sales increased 6%. The increase was driven by new unit development and same store sales growth. The increase was partially offset by refranchising and store closures.

Company sales decreased \$167 million or 3% in 2001, after a 2% unfavorable impact from foreign currency translation. Excluding the unfavorable impact of foreign currency translation and lapping the fifty-third week in 2000, Company sales were flat. An increase due to new unit development was offset by refranchising.

Franchise and license fees increased \$51 million or 6% in 2002. The impact from foreign currency translation was not significant. Excluding the favorable impact of the YGR acquisition, franchise and license fees increased 4%. The increase was driven by new unit development and same store sales growth, partially offset by store closures.

Franchise and license fees increased \$27 million or 3% in 2001, after a 2% unfavorable impact from foreign currency translation. Excluding the unfavorable impact of foreign currency translation and lapping the fifty-third week in 2000, franchise and license fees increased 7%. The increase was driven by new unit development, units acquired from us and same store sales growth. This increase was partially offset by store closures.

WORLDWIDE COMPANY RESTAURANT MARGIN

	2002	2001	2000
Company sales	100.0%	100.0%	100.0%
Food and paper	30.6	31.1	30.8
Payroll and employee benefits	27.2	27.1	27.7
Occupancy and other operating expenses	26.2	27.0	26.4
Company restaurant margin	16.0%	14.8%	15.1%

Restaurant margin as a percentage of sales increased approximately 120 basis points in 2002. The increase included the favorable impact of approximately 50 basis points from the adoption of SFAS 142, partially offset by the unfavorable impact of approximately 15 basis points from the YGR acquisition. U.S. restaurant margin increased approximately 80 basis points and International restaurant margin increased approximately 210 basis points.

Restaurant margin as a percentage of sales decreased approximately 30 basis points in 2001. U.S. restaurant margin was flat and International restaurant margin declined approximately 120 basis points.

WORLDWIDE GENERAL AND ADMINISTRATIVE EXPENSES

G&A expenses increased \$117 million or 15% in 2002. Excluding the unfavorable impact of the YGR acquisition, G&A expenses increased 10%. The increase was primarily driven by higher compensation-related costs and higher corporate and project spending.

G&A expenses decreased \$34 million or 4% in 2001. Excluding the favorable impact of lapping the fifty-third week in 2000, G&A expenses decreased 3%. The decrease was driven by lower corporate and project spending, the formation of unconsolidated affiliates and refranchising. The decrease was partially offset by higher compensation-related costs.

WORLDWIDE FRANCHISE AND LICENSE EXPENSES

Franchise and license expenses decreased \$10 million or 18% in 2002. The decrease was primarily attributable to lower allowances for doubtful franchise and license fee receivables and the favorable impact of lapping support costs related to the financial restructuring of certain Taco Bell franchisees in 2001. The decrease was partially offset by higher marketing support costs in certain international markets.

Franchise and license expenses increased \$10 million or 20% in 2001. The increase was primarily due to support costs related to the financial restructuring of certain Taco Bell franchisees. The increase was partially offset by lower allowances for doubtful franchise and license fee receivables.

WORLDWIDE OTHER (INCOME) EXPENSE

Other (income) expense is comprised of equity (income) loss from investments in unconsolidated affiliates and foreign exchange net (gain) loss.

Other (income) expense increased \$7 million or 28% in 2002. Equity income increased \$3 million or 12%. The impact from foreign currency translation was not significant on equity income. The increase included a \$4 million favorable impact from the adoption of SFAS 142.

Other (income) expense decreased \$2 million or 8% in 2001. Equity income increased \$1 million or 3%, after a 6% unfavorable impact from foreign currency translation.

WORLDWIDE FACILITY ACTIONS NET LOSS (GAIN)

We recorded facility actions net loss of \$32 million in 2002 and \$1 million in 2001 and facility actions net gain of \$176 million in 2000. See the Store Portfolio Strategy section for more detail of our refranchising and closure activities and Note 7 for a summary of the components of facility actions net loss (gain) by reportable operating segment.

WORLDWIDE ONGOING OPERATING PROFIT

	2002	% B(W) vs. 2001	2001	% B(W) vs. 2000
United States	\$ 825	14	\$ 722	(3)
International	389	22	318	3
Unallocated and corporate expenses	(178)	(20)	(148)	9
Unallocated other income (expenses)	(1)	59	(3)	NM
Ongoing operating profit	\$ 1,035	16	\$ 889	—

The changes in U.S. and International ongoing operating profit for 2002 and 2001 are discussed in the respective sections.

Unallocated and corporate expenses increased \$30 million or 20% in 2002. The increase was primarily driven by higher compensation-related costs and higher corporate and project spending.

Unallocated and corporate expenses decreased \$15 million or 9% in 2001. Excluding the favorable impact of lapping the fifty-third week in 2000, G&A decreased 8%. The decline was primarily due to lower corporate and project spending partially offset by higher compensation-related costs.

WORLDWIDE INTEREST EXPENSE, NET

	2002	2001	2000
Interest expense	\$ 180	\$ 172	\$ 190
Interest income	(8)	(14)	(14)
Interest expense, net	\$ 172	\$ 158	\$ 176

Net interest expense increased \$14 million or 8% in 2002. Interest expense increased \$8 million or 5% in 2002. Excluding the impact of the YGR acquisition, interest expense decreased 12%. The decrease was driven by a reduction in our average debt balance partially offset by an increase in our average interest rate. Our average interest rate increased due to a reduction in our variable-rate borrowings using proceeds from the issuance of longer term, fixed-rate notes.

Net interest expense decreased \$18 million or 10% in 2001. The decrease was primarily due to a decrease in our average interest rate.

WORLDWIDE INCOME TAXES

	2002	2001	2000
Reported			
Income taxes	\$ 275	\$ 241	\$ 271
Effective tax rate	32.1%	32.8%	39.6%
Ongoing⁽¹⁾			
Income taxes	\$ 270	\$ 243	\$ 268
Effective tax rate	31.3%	33.1%	37.7%

⁽¹⁾ Excludes the effects of facility actions net loss (gain) and unusual items (income) expense. See Note 7 for a discussion of these items.

The following table reconciles the U.S. federal statutory tax rate to our ongoing effective tax rate:

	2002	2001	2000
U.S. federal statutory tax rate	35.0%	35.0%	35.0%
State income tax, net of federal tax benefit	2.0	1.9	1.8
Foreign and U.S. tax effects attributable			
to foreign operations	(1.9)	0.2	(0.4)
Adjustments relating to prior years	(3.5)	(2.2)	5.3
Valuation allowance reversals	—	(1.7)	(4.0)
Other, net	(0.3)	(0.1)	—
Ongoing effective tax rate	31.3%	33.1%	37.7%

The 2002 ongoing effective tax rate decreased 1.8 percentage points to 31.3%. The decrease in the ongoing effective tax rate was primarily due to adjustments related to prior years and an increase in the benefit from claiming credit against our current and future U.S. income tax liability for foreign taxes paid, partially offset by reduced valuation allowance reversals. See Note 22 for a discussion of valuation allowances.

In 2002, the effective tax rate attributable to foreign operations was lower than the U.S. federal statutory rate primarily due to the benefit of claiming credit against our current and future U.S. income tax liability for foreign taxes paid.

The 2001 ongoing effective tax rate decreased 4.6 percentage points to 33.1%. The decrease in the ongoing effective tax rate was primarily due to adjustments related to prior years, partially offset by reduced valuation allowance reversals.

In 2001, the effective tax rate attributable to foreign operations was slightly higher than the U.S. federal statutory rate because losses of foreign operations for which no benefit could be currently recognized and other adjustments more than offset the effect of claiming credit against our U.S. income tax liability for foreign taxes paid.

U.S. RESULTS OF OPERATIONS

	2002	% B/W vs. 2001	2001	% B/W vs. 2000
Revenues:				
Company sales	\$ 4,778	11	\$ 4,287	(5)
Franchise and license fees	569	5	540	2
Total revenues	\$ 5,347	11	\$ 4,827	(5)
Company restaurant margin	\$ 764	18	\$ 649	(5)
% of Company sales	16.0%	0.8pp ^{ts}	15.2%	—
Ongoing operating profit	\$ 825	14	\$ 722	(3)

U.S. RESTAURANT UNIT ACTIVITY

	Company	Unconsolidated Affiliates ^(a)	Franchisees	Licensees	Total
Balance at Dec. 30, 2000	4,302	—	12,862	2,873	20,037
New Builds	183	—	265	182	630
Acquisitions	136	—	(133)	(3)	—
Refanchising	(155)	—	155	—	—
Closures	(182)	—	(416)	(507)	(1,105)
Balance at Dec. 30, 2001	4,284	—	12,733	2,545	19,562
New Builds	210	4	233	136	583
Acquisitions ^(b)	899	—	1,001	(3)	1,897
Refanchising	(47)	—	47	—	—
Closures	(153)	—	(351)	(382)	(886)
Other ^(c)	—	—	—	(30)	(30)
Balance at Dec. 28, 2002	5,193	4	13,663	2,266	21,126
% of Total	24%	—	65%	11%	100%

(a) Represents 4 Yum! Can units.

(b) Includes units that existed at the date of the acquisition of YGR on May 7, 2002.

(c) Represents licensee units transferred from U.S. to International.

U.S. SYSTEM SALES

	2002	% B/W vs. 2001	2001	% B/W vs. 2000
System sales	\$15,839	9	\$14,596	1

System sales increased approximately \$1,243 million or 9% in 2002. Excluding the favorable impact of the YGR acquisition, system sales increased 4%. The increase resulted from same store sales growth and new unit development, partially offset by store closures.

System sales increased \$82 million or 1% in 2001. Excluding the unfavorable impact of lapping the fifty-third week in 2000, system sales increased 2%. The increase was driven by new unit development and same store sales growth at KFC and Pizza Hut, partially offset by store closures.

U.S. REVENUES

Company sales increased \$491 million or 11% in 2002. Excluding the favorable impact of the YGR acquisition, company sales increased 3%. The increase was driven by new unit development and same store sales growth. The increase was partially offset by store closures and refanchising.

For 2002, blended Company same store sales for KFC, Pizza Hut and Taco Bell were up 2% due to increases in both transactions and average guest check. Same store sales at Taco Bell

increased 7%, primarily driven by a 4% increase in transactions. Same store sales at both Pizza Hut and KFC were flat due to a 2% increase in average guest check offset by transaction declines.

Company sales decreased \$246 million or 5% in 2001. Excluding the unfavorable impact of lapping the fifty-third week in 2000, Company sales decreased 4%. The decrease was driven by refanchising, partially offset by new unit development.

For 2001, blended Company same store sales for KFC, Pizza Hut and Taco Bell were up 1% on a comparable fifty-two week basis. An increase in the average guest check was partially offset by transaction declines. Same store sales at KFC were up 3%, primarily due to an increase in transactions. Same store sales at both Pizza Hut and Taco Bell were flat. A 2% increase in the average guest check at Pizza Hut and a 3% increase in the average guest check at Taco Bell were both offset by transaction declines.

Franchise and license fees increased \$29 million or 5% in 2002. Excluding the favorable impact of the YGR acquisition, franchise and license fees increased 3%. The increase was driven by same store sales growth and new unit development, partially offset by store closures.

Franchise and license fees grew \$11 million or 2% in 2001. Excluding the unfavorable impact of lapping the fifty-third week in 2000, franchise and license fees increased 4%. The increase was driven by units acquired from us and new unit development, partially offset by store closures.

U.S. COMPANY RESTAURANT MARGIN

	2002	2001	2000
Company sales	100.0%	100.0%	100.0%
Food and paper	28.2	28.6	28.6
Payroll and employee benefits	30.9	30.6	30.8
Occupancy and other operating expenses	24.9	25.6	25.4
Company restaurant margin	16.0%	15.2%	15.2%

Restaurant margin as a percentage of sales increased approximately 80 basis points in 2002. The increase includes the favorable impact of approximately 50 basis points from the adoption of SFAS 142, which was partially offset by the unfavorable impact of approximately 20 basis points from the YGR acquisition. The increase was primarily driven by the favorable impact of same store sales growth on margin and lower food and paper costs, partially offset by an increase in labor costs. The decrease in food and paper costs was primarily driven by cheese costs. The increase in labor costs was primarily driven by wage rates.

Restaurant margin as a percentage of sales was flat in 2001. The favorable impact of same store sales growth on margin was offset by increases in occupancy and other costs, food and paper costs and labor costs. The increase in food and paper costs was primarily driven by cheese costs. The increase in labor costs was primarily driven by wage rates.

U.S. ONGOING OPERATING PROFIT

Ongoing operating profit increased \$103 million or 14% in 2002, including a 3% favorable impact from the adoption of SFAS 142.

INTERNATIONAL RESTAURANT UNIT ACTIVITY

	Unconsolidated Company	Affiliates	Franchisees	Licenses	Total
Balance at Dec. 30, 2000	1,821	1,844	6,425	290	10,380
New Builds	338	150	553	8	1,049
Acquisitions	225	(28)	(195)	(2)	—
Refanchising	(78)	(20)	98	—	—
Closures	(88)	(39)	(325)	(50)	(502)
Other ^{1d}	(67)	93	(26)	—	—
Balance at Dec. 29, 2001	2,151	2,000	6,530	246	10,927
New Builds	375	161	515	10	1,061
Acquisitions ^{1e}	6	41	163	—	210
Refanchising	(127)	(14)	141	—	—
Closures	(71)	(46)	(298)	(27)	(442)
Other ^{1d}	(13)	2	10	31	42
Balance at Dec. 28, 2002	2,333	2,144	7,061	260	11,798
% of Total	20%	18%	60%	2%	100%

^{1a} Primarily includes 52 Company stores and 41 franchisee stores contributed to an unconsolidated affiliate in 2001.

^{1b} Includes units that existed at the date of the acquisition of YGR on May 7, 2002.

^{1c} Primarily represents licensee units transferred from U.S. to International in 2002.

Excluding the favorable impact of both SFAS 142 and the YGR acquisition, ongoing operating profit increased 8%. The increase was driven by same store sales growth and the favorable impact of lapping franchise support costs related to the restructuring of certain Taco Bell franchisees in 2001. The increase was partially offset by higher restaurant operating costs, primarily due to higher labor costs, and the unfavorable impact of refranchising and store closures. The higher labor costs were driven by wage rates.

Ongoing operating profit decreased \$20 million or 3% in 2001. Excluding the unfavorable impact of lapping the fifty-third week in 2000, ongoing operating profit decreased 1%. The decrease was driven by the unfavorable impact of refranchising and store closures, higher restaurant operating costs and higher franchise support costs related to the restructuring of certain Taco Bell franchisees. The decrease was partially offset by same store sales growth and new unit development.

INTERNATIONAL RESULTS OF OPERATIONS

	2002	% B(W) vs. 2001	2001	% BW vs. 2000
Revenues				
Company sales	\$ 2,113	14	\$ 1,851	5
Franchise and license fees	297	8	275	6
Total revenues	\$ 2,410	13	\$ 2,126	5
Company restaurant margin	\$ 337	31	\$ 257	41
% of Company sales	16.0%	2.1 PPTS.	13.9%	11.2 PPTS.
Ongoing operating profit	\$ 389	22	318	3

INTERNATIONAL SYSTEM SALES

	2002	% Chg vs. 2001	2001	% Chg vs. 2000
System sales	\$ 8,380	8	\$ 7,732	1

System sales increased approximately \$648 million or 8% in 2002, after a 1% unfavorable impact from foreign currency translation. Excluding the impact of foreign currency translation and the favorable impact of the YGR acquisition, system sales increased 8%. The increase resulted from new unit development and same store sales growth, partially offset by store closures.

System sales increased approximately \$87 million or 1% in 2001, after a 7% unfavorable impact from foreign currency translation. Excluding the unfavorable impact of foreign currency translation and lapping the fifty-third week in 2000, system sales increased 9%. The increase was driven by new unit development and same store sales growth, partially offset by store closures.

INTERNATIONAL REVENUES

Company sales increased \$262 million or 14% in 2002, after a 1% favorable impact from foreign currency translation. The increase was driven by new unit development, partially offset by refranchising and store closures. The unfavorable impact of refranchising primarily resulted from the sale of the Singapore business in the third quarter of 2002.

Company sales increased \$79 million or 5% in 2001, after a 5% unfavorable impact from foreign currency translation. Excluding the unfavorable impact of foreign currency translation and lapping the fifty-third week in 2000, Company sales increased 11%. The increase was driven by new unit development and acquisitions of restaurants from franchisees. The increase was partially offset by the contribution of Company stores to new unconsolidated affiliates.

Franchise and license fees increased \$22 million or 8% in 2002, after a 1% unfavorable impact from foreign currency translation. Excluding the impact of foreign currency translation and the favorable impact of the YGR acquisition, franchise and license fees increased 8%. The increase was driven by new unit development and same store sales growth, partially offset by store closures.

Franchise and license fees increased \$16 million or 6% in 2001, after a 6% unfavorable impact from foreign currency translation. Excluding the unfavorable impact of foreign currency translation and lapping the fifty-third week in 2000, franchise and license fees increased 13%. The increase was driven by new unit development, same store sales growth and the contribution of Company stores to new unconsolidated affiliates. The increase was partially offset by store closures.

INTERNATIONAL COMPANY RESTAURANT MARGIN

	2002	2001	2000
Company sales	100.0%	100.0%	100.0%
Food and paper	36.1	36.9	36.5
Payroll and employee benefits	18.7	19.1	19.5
Occupancy and other operating expenses	29.2	30.1	28.9
Company restaurant margin	16.0%	13.9%	15.1%

Restaurant margin as a percentage of sales increased approximately 210 basis points in 2002, including the favorable impact of approximately 60 basis points from the adoption of SFAS 142. The increase was primarily driven by the favorable impact of lower restaurant operating costs and the elimination of lower average margin units through store closures. Lower restaurant operating costs primarily resulted from lower food and paper costs, partially offset by higher labor costs.

Restaurant margin as a percentage of sales decreased approximately 120 basis points in 2001. The decrease was primarily attributable to higher restaurant operating costs and the acquisition of below average margin stores from franchisees. The decrease was partially offset by the favorable impact of same store sales growth.

INTERNATIONAL ONGOING OPERATING PROFIT

Ongoing operating profit increased \$71 million or 22% in 2002, after a 1% unfavorable impact from foreign currency translation. Excluding the impact of foreign currency translation and the favorable impact from the adoption of SFAS 142, ongoing operating profit increased 17%. The increase was driven by new unit development and the favorable impact of lower restaurant operating costs, primarily lower cost of food and paper. The increase was partially offset by higher G&A expenses, primarily compensation-related costs.

Ongoing operating profit increased \$9 million or 3% in 2001, after a 7% unfavorable impact from foreign currency translation. Excluding the unfavorable impact of foreign currency translation and lapping the fifty-third week in 2000, ongoing operating profit increased 12%. The increase was driven by new unit development and same store sales growth, partially offset by higher restaurant operating costs.

CONSOLIDATED CASH FLOWS

Net cash provided by operating activities was \$1,088 million compared to \$832 million in 2001. Excluding the impact of the AmeriServe bankruptcy reorganization process, cash provided by operating activities was \$1,043 million versus \$704 million in 2001. This increase was primarily driven by higher operating profit and timing of tax receipts and payments.

In 2001, net cash provided by operating activities was \$832 million compared to \$491 million in 2000. Excluding the impact of the AmeriServe bankruptcy reorganization process, cash provided by operating activities was \$704 million versus \$734 million in 2000.

Net cash used in investing activities was \$885 million versus \$503 million in 2001. The increase in cash used was primarily due to the acquisition of YGR and higher capital spending in 2002, partially offset by the acquisition of fewer restaurants from franchisees in 2002.

In 2001, net cash used in investing activities was \$503 million versus \$237 million in 2000. The increase in cash used was primarily due to lower gross refranchising proceeds as a result of selling fewer restaurants in 2001 and increased acquisitions of restaurants from franchisees and capital spending. The increase was partially offset by lapping the funding of a debtor-in-possession revolving credit facility to AmeriServe in 2000.

Although we report gross proceeds in our Consolidated Statements of Cash Flows, we also consider refranchising proceeds on an "after-tax" basis. We define after-tax proceeds as gross refranchising proceeds less the settlement of working capital liabilities (primarily accounts payable and property taxes) related to the units refranchised and payment of taxes on the gains. The after-tax proceeds can be used to pay down debt or repurchase shares. After-tax proceeds were approximately \$71 million in 2002 which reflects a 21% decrease from 2001. This decrease was due to the refranchising of fewer restaurants in 2002 versus 2001.

Net cash used in financing activities was \$187 million versus \$352 million in 2001. The decrease is primarily due to lower debt repayments and higher proceeds from stock option exercises versus 2001, partially offset by higher shares repurchased in 2002.

In 2001, net cash used in financing activities was \$352 million compared to \$207 million in 2000. The increase in cash used is primarily due to higher repayment of debt, partially offset by fewer shares repurchased in 2001 compared to 2000.

In November 2002, our Board of Directors authorized a new share repurchase program. This program authorizes us to repurchase, through November 20, 2004, up to \$300 million of our outstanding Common Stock (excluding applicable transaction fees). During 2002, we repurchased approximately 1.2 million shares for approximately \$28 million under this program.

In February 2001, our Board of Directors authorized a share repurchase program. This program authorized us to repurchase up to \$300 million of our outstanding Common Stock (excluding applicable transaction fees). This share repurchase program was completed in 2002. During 2002, we repurchased approximately 7.0 million shares for approximately \$200 million under this program. During 2001, we repurchased approximately 4.8 million shares for approximately \$100 million.

In September 1999, our Board of Directors authorized a share repurchase program. This program authorized us to repurchase up to \$350 million of our outstanding Common Stock (excluding applicable transaction fees). This share repurchase program was completed in 2000. During 2000, we repurchased approximately 12.8 million shares for approximately \$216 million.

See Note 21 for a discussion of the share repurchase programs.

FINANCING ACTIVITIES

On June 25, 2002, we closed on a new \$1.4 billion senior unsecured Revolving Credit Facility (the "New Credit Facility"). The New Credit Facility replaced the existing bank credit agreement which was comprised of a senior unsecured Term Loan Facility and a \$1.75 billion senior unsecured Revolving Credit Facility (collectively referred to as the "Old Credit Facilities") that were scheduled to mature on October 2, 2002. On December 27, 2002, we voluntarily reduced our maximum borrowings under the New Credit Facility from \$1.4 billion to \$1.2 billion. The New Credit Facility matures on June 25, 2005. We used the initial borrowings under the New Credit Facility to repay the indebtedness under the Old Credit Facilities.

The New Credit Facility is unconditionally guaranteed by our principal domestic subsidiaries and contains other terms and provisions (including representations, warranties, covenants, conditions and events of default) similar to those set forth in the Old Credit Facilities. Specifically, the New Credit Facility contains financial covenants relating to maintenance of leverage and fixed charge coverage ratios. The New Credit Facility also contains affirmative and negative covenants including, among other things, limitations on certain additional indebtedness, guarantees of indebtedness, cash dividends, aggregate non-U.S. investment and certain other transactions as defined in the agreement.

Under the terms of the New Credit Facility, we may borrow up to the maximum borrowing limit less outstanding letters of credit. At December 28, 2002, our unused New Credit Facility totaled \$0.9 billion, net of outstanding letters of credit of \$0.2 billion. The interest rate for borrowings under the New Credit Facility ranges from 1.00% to 2.00% over the London Interbank Offered Rate ("LIBOR") or 0.00% to 0.65% over an Alternate Base Rate, which is the greater of the Prime Rate or the Federal Funds Effective Rate plus 1%. The exact spread over LIBOR or the Alternate Base Rate, as applicable, will depend upon our performance under specified financial criteria. Interest is payable at least quarterly. In the third quarter of 2002, we capitalized debt issuance costs of approximately \$9 million related to the New Credit Facility. These debt issuance costs will be amortized into interest expense over the life of the New Credit Facility.

In June 2002, we issued \$400 million of 7.70% Senior Unsecured Notes due July 1, 2012 (the "2012 Notes"). The net proceeds

from the issuance of the 2012 Notes were used to repay indebtedness under the New Credit Facility. Interest on the 2012 Notes is payable January 1 and July 1 of each year and commenced on January 1, 2003. We capitalized debt issuance costs of approximately \$5 million related to the 2012 Notes in third quarter of 2002. Subsequent to this issuance, we have \$150 million available for issuance under a \$2 billion shelf registration filed in 1997.

As discussed in Note 4, upon the acquisition of YGR, we assumed approximately \$168 million in present value of future rent obligations related to certain sale-leaseback agreements entered into by YGR involving approximately 350 U.S. units. As a result of liens held by the buyer/lessor on certain personal property within the units, the sale-leaseback agreements have been accounted for as financings and are reflected as debt in our Consolidated Financial Statements as of December 28, 2002. Rental payments made under these agreements will be made on a monthly basis through 2019 with an effective interest rate of approximately 11%.

CONSOLIDATED FINANCIAL CONDITION

Assets increased \$975 million or 22% to \$5.4 billion. This increase was primarily due to the acquisition of YGR and the impact of capital spending. The decrease in the allowance for doubtful accounts from \$77 million to \$42 million was primarily the result of recoveries related to the AmeriServe bankruptcy reorganization process (see Note 25) and the write-off of receivables

previously fully reserved. The increase in assets classified as held for sale is due primarily to classification of our Puerto Rico market as held for sale during the fourth quarter of 2002.

Liabilities increased \$485 million or 11% to \$4.8 billion. The increase was primarily due to additional financing associated with the acquisition of YGR. As discussed in Note 14, the decrease in short-term borrowings of \$550 million and the increase in long-term debt of \$747 million are primarily the result of the replacement of our Old Credit Facilities that were to expire in October 2002 with the New Credit Facility that will expire in 2005. The increase in current income taxes payable was primarily the result of a reclassification from other liabilities and deferred credits for taxes that are now expected to be paid within the next twelve months.

LIQUIDITY

Operating in the QSR industry allows us to generate substantial cash flows from the operations of our company stores and from our franchise operations, which require a limited YUM investment in operating assets. Typically, our cash flows include a significant amount of discretionary capital spending. Though a decline in revenues could adversely impact our cash flows from operations, we believe our operating cash flows and ability to adjust discretionary capital spending and borrow funds will allow us to meet our cash requirements in 2003 and beyond.

Significant contractual obligations and payments as of December 28, 2002 due by period included:

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt ^(a)	\$ 2,173	\$ 2	\$ 508	\$ 207	\$ 1,456
Short-term borrowings	134	134	—	—	—
Debt excluding capital leases	2,307	136	508	207	1,456
Capital leases ^(b)	181	14	27	23	117
Operating leases ^(b)	1,974	276	456	337	905
Franchisee financing commitments	19	9	10	—	—
Total contractual obligations	\$ 4,481	\$ 435	\$ 1,001	\$ 567	\$ 2,478

(a) Excludes a fair value adjustment of \$44 million included in debt related to interest swaps that hedge the fair value of a portion of our debt.

(b) These obligations, which are shown on a nominal basis, relate to approximately 5,600 restaurants.

See Note 14 for a discussion of short-term borrowings and long-term debt and Note 15 for a discussion of leases.

In addition, we have certain other commercial commitments where payment is contingent upon the occurrence of certain events. As of December 28, 2002, the maximum exposure under these commercial commitments, which are shown on a nominal basis, included:

Contingent liabilities associated with lease assignments or guarantees	\$388
Standby letters of credit ^(a)	193
Guarantees of unconsolidated affiliates' debt ^(b)	26
Other commercial commitments	27

(a) Includes \$32 million related to guarantees of financial arrangements of franchisees, which are supported by stand-by letters of credit.

(b) As of December 28, 2002, this debt totaled approximately \$152 million, our share of which was approximately \$77 million. As noted above, we have guaranteed \$26 million of this total debt obligation. Our unconsolidated affiliates had total assets of over \$1 billion as of year-end 2002 and total revenues of approximately \$1.8 billion in 2002.

See Notes 14 and 24 for a further discussion of these commitments.

OTHER SIGNIFICANT KNOWN EVENTS, TRENDS OR UNCERTAINTIES EXPECTED TO IMPACT 2003 OPERATING PROFIT COMPARISONS WITH 2002

New Accounting Pronouncements

See Note 2.

Pension Plan Funded Status

Certain of our employees are covered under noncontributory defined benefit pension plans. The most significant of these plans was amended in 2001 such that employees hired after September 30, 2001 are no longer eligible to participate. As of our September 30, 2002 measurement date, these plans had a projected benefit obligation ("PBO") of \$501 million, an accumulated benefit obligation ("ABO") of \$448 million and a fair value of plan assets of \$251 million. Subsequent to the measurement date but prior to December 28, 2002, we made an additional \$25 million contribution to the plans which is not included in this fair value of plan assets. As a result of the \$250 million underfunded status of the plans relative to the PBO at September 30, 2002, we have recorded a \$71 million charge to shareholders' equity (net of tax of \$43 million) as of December 28, 2002.

The PBO and ABO reflect the actuarial present value of all benefits earned to date by employees. The PBO incorporates assumptions as to future compensation levels while the ABO reflects only current compensation levels. Due to the relatively long time frame over which benefits earned to date are expected to be paid, our PBO and ABO are highly sensitive to changes in discount rates. We measured our PBO and ABO using a discount rate of 6.85% at September 30, 2002. A 50 basis point increase in this discount rate would have decreased our PBO by approximately \$49 million at September 30, 2002. Conversely, a 50 basis point decrease in this discount rate would have increased our PBO by approximately \$56 million at September 30, 2002.

Due to recent stock market declines, our pension plan assets have experienced losses in value in 2002 and 2001 totaling approximately \$75 million. We changed our expected long-term rate of return on plan assets from 10% to 8.5% for the determination of our 2002 expense. We believe that this assumption is appropriate given the composition of our plan assets and historical market returns thereon. This change resulted in the recognition of approximately \$5 million in incremental expense in comparison to 2001. We will continue to use the 8.5% expected rate of return on plan assets assumption for the determination of pension expense in 2003. Given no change to the market-related value of our plan assets as of September 30, 2002, a one percentage point increase or decrease in our expected rate of return on plan assets assumption would decrease or increase, respectively, our pension plan expense by approximately \$3 million.

The losses our plan assets have experienced, along with the decrease in discount rates, have largely contributed to the unrec-

ognized actuarial loss of \$169 million in our plans as of September 30, 2002. For purposes of determining 2002 expense our funded status was such that we recognized \$1 million of unrecognized actuarial loss in 2002. We will recognize approximately \$7 million of unrecognized actuarial loss in 2003. Given no change to the assumptions at our September 30, 2002 measurement date, actuarial loss recognition will increase gradually over the next few years, however, we do not believe the increase will materially impact our results of operations.

In total, we expect pension expense to increase approximately \$14 million to \$41 million in 2003. We have incorporated this incremental expense into our operating plans and outlook. The increase is driven by an increase in interest cost because of the higher PBO and the recognition of actuarial losses as discussed in the preceding paragraph. Service cost will also increase as a result of the lower discount rate, though as previously mentioned the plans are closed to new participants. A 50 basis point change in our discount rate assumption of 6.85% at September 30, 2002 would impact our pension expense by approximately \$11 million.

We do not believe that the underfunded status of the pension plans will materially affect our financial position or cash flows in 2003 or future years. Given current funding levels and discount rates we would anticipate making contributions to fully fund the pension plans over the course of the next five years. We believe our cash flows from operating activities of approximately \$1 billion per year are sufficient to allow us to make necessary contributions to the plans, and anticipated fundings have been incorporated into our cash flow projections. We have included known and expected increases in our pension expense as well as future expected plan contributions in our operating plans and outlook.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to financial market risks associated with interest rates, foreign currency exchange rates and commodity prices. In the normal course of business and in accordance with our policies, we manage these risks through a variety of strategies, which may include the use of derivative financial and commodity instruments to hedge our underlying exposures. Our policies prohibit the use of derivative instruments for trading purposes, and we have procedures in place to monitor and control their use.

Interest Rate Risk

We have a significant market risk exposure to changes in interest rates, principally in the United States. We attempt to minimize this risk and lower our overall borrowing costs through the utilization of derivative financial instruments, primarily interest rate swaps.

These swaps are entered into with financial institutions and have reset dates and critical terms that match those of the underlying debt. Accordingly, any change in market value associated with interest rate swaps is offset by the opposite market impact on the related debt.

At December 28, 2002 and December 29, 2001, a hypothetical 100 basis point increase in short-term interest rates would result in a reduction of \$6 million and \$4 million, respectively, in annual income before taxes. The estimated reductions are based upon the unhedged portion of our variable rate debt and assume no changes in the volume or composition of debt. In addition, the fair value of our derivative financial instruments at December 28, 2002 and December 29, 2001 would decrease approximately \$8 million and \$5 million, respectively. The fair value of our Senior Unsecured Notes at December 28, 2002 and December 29, 2001 would decrease approximately \$93 million and \$72 million, respectively. Fair value was determined by discounting the projected cash flows.

Foreign Currency Exchange Rate Risk

International ongoing operating profit constitutes approximately 32% of our ongoing operating profit in 2002, excluding unallocated and corporate expenses. In addition, the Company's net asset exposure (defined as foreign currency assets less foreign currency liabilities) totaled approximately \$1 billion as of December 28, 2002. Operating in international markets exposes the Company to movements in foreign currency exchange rates. The Company's primary exposures result from our operations in Asia-Pacific, the Americas and Europe. Changes in foreign currency exchange rates would impact the translation of our investments in foreign operations, the fair value of our foreign currency denominated financial instruments and our reported foreign currency denominated earnings and cash flows. For the fiscal year ended December 28, 2002, operating profit would have decreased \$43 million if all foreign currencies had uniformly weakened 10% relative to the U.S. dollar. The estimated reduction assumes no changes in sales volumes or local currency sales or input prices.

We attempt to minimize the exposure related to our investments in foreign operations by financing those investments with local currency debt when practical. In addition, we attempt to minimize the exposure related to foreign currency denominated financial instruments by purchasing goods and services from third parties in local currencies when practical. Consequently, foreign currency denominated financial instruments consist primarily of intercompany short-term receivables and payables. At times, we utilize forward contracts to reduce our exposure related to these foreign currency denominated financial instruments. The notional amount and maturity dates of these contracts match those of the underlying receivables or payables such that our foreign currency exchange risk related to these instruments is eliminated.

Commodity Price Risk

We are subject to volatility in food costs as a result of market risk associated with commodity prices. Our ability to recover increased costs through higher pricing is, at times, limited by the competitive environment in which we operate. We manage our exposure to this risk primarily through pricing agreements as well as, on a limited basis, commodity future and option contracts. Commodity future and option contracts entered into for the fiscal years ended December 28, 2002, and December 29, 2001, did not significantly impact our financial position, results of operations or cash flows.

CAUTIONARY STATEMENTS

From time to time, in both written reports and oral statements, we present "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The statements include those identified by such words as "may," "will," "expect," "anticipate," "believe," "plan" and other similar terminology. These "forward-looking statements" reflect our current expectations regarding future events and operating and financial performance and are based upon data available at the time of the statements. Actual results involve risks and uncertainties, including both those specific to the Company and those specific to the industry, and could differ materially from expectations.

Company risks and uncertainties include, but are not limited to, potentially substantial tax contingencies related to the Spin-off, which, if they occur, require us to indemnify PepsiCo, Inc.; our substantial debt leverage and the attendant potential restriction on our ability to borrow in the future, as well as our substantial interest expense and principal repayment obligations; potential unfavorable variances between estimated and actual liabilities; our ability to secure distribution of products and equipment to our restaurants on favorable economic terms and our ability to ensure adequate supply of restaurant products and equipment in our stores; the ongoing financial viability of our franchisees and licensees; volatility of actuarially determined losses and loss estimates; and adoption of new or changes in accounting policies and practices including pronouncements promulgated by standard setting bodies.

Industry risks and uncertainties include, but are not limited to, global and local business, economic and political conditions; legislation and governmental regulation; competition; success of operating initiatives and advertising and promotional efforts; volatility of commodity costs; increases in minimum wage and other operating costs; availability and cost of land and construction; consumer preferences, spending patterns and demographic trends; political or economic instability in local markets and changes in currency exchange and interest rates; any adverse economic or operational repercussions from terrorist activities and any governmental response thereto; and war or risk of war.

CONSOLIDATED STATEMENTS OF INCOME

Fiscal years ended December 28, 2002, December 29, 2001 and December 30, 2000

(in millions, except per share data)	2002	2001	2000
Revenues			
Company sales	\$ 6,891	\$ 6,138	\$ 6,305
Franchise and license fees	866	815	788
	7,757	6,953	7,093
Costs and Expenses, net			
Company restaurants			
Food and paper	2,109	1,908	1,942
Payroll and employee benefits	1,875	1,666	1,744
Occupancy and other operating expenses	1,806	1,658	1,665
	5,790	5,232	5,351
General and administrative expenses	913	796	830
Franchise and license expenses	49	59	49
Other (income) expense	(30)	(23)	(25)
Facility actions net loss (gain)	32	1	(176)
Unusual items (income) expense	(27)	(3)	204
Total costs and expenses, net	6,727	6,062	6,233
Operating Profit	1,030	891	860
Interest expense, net	172	158	176
Income Before Income Taxes	858	733	684
Income tax provision	275	241	271
Net Income	\$ 583	\$ 492	\$ 413
Basic Earnings Per Common Share	\$ 1.97	\$ 1.68	\$ 1.41
Diluted Earnings Per Common Share	\$ 1.88	\$ 1.62	\$ 1.39

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal years ended December 28, 2002, December 29, 2001 and December 30, 2000

(in millions)	2002	2001	2000
Cash Flows—Operating Activities			
Net income	\$ 583	\$ 492	\$ 413
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	370	354	354
Facility actions net loss (gain)	32	1	(176)
Unusual items [income] expense	—	(6)	120
Other liabilities and deferred credits	(38)	(11)	(5)
Deferred income taxes	21	(72)	(51)
Other non-cash charges and credits, net	36	15	43
Changes in operating working capital, excluding effects of acquisitions and dispositions:			
Accounts and notes receivable	32	116	(161)
Inventories	11	(8)	11
Prepaid expenses and other current assets	19	(3)	(3)
Accounts payable and other current liabilities	(37)	(13)	(94)
Income taxes payable	59	(33)	40
Net change in operating working capital	84	59	(207)
Net Cash Provided by Operating Activities	1,088	832	491
Cash Flows—Investing Activities			
Capital spending	(760)	(636)	(572)
Proceeds from refranchising of restaurants	81	111	381
Acquisition of Yorkshire Global Restaurants, Inc.	(275)	—	—
Acquisition of restaurants from franchisees	(13)	(108)	(24)
AmeriServe funding, net	—	—	(70)
Short-term investments	9	27	(21)
Sales of property, plant and equipment	58	57	64
Other, net	15	46	5
Net Cash Used in Investing Activities	(885)	(503)	(237)
Cash Flows—Financing Activities			
Proceeds from Senior Unsecured Notes	398	842	—
Revolving Credit Facility activity, by original maturity			
Three months or less, net	59	(943)	82
Proceeds from long-term debt	—	1	—
Repayments of long-term debt	(511)	(258)	(99)
Short-term borrowings—three months or less, net	(15)	58	(11)
Repurchase shares of common stock	(228)	(100)	(216)
Employee stock option proceeds	125	58	46
Other, net	(15)	(10)	(9)
Net Cash Used in Financing Activities	(187)	(352)	(207)
Effect of Exchange Rate on Cash and Cash Equivalents	4	—	(3)
Net Increase (Decrease) in Cash and Cash Equivalents	20	(23)	44
Cash and Cash Equivalents—Beginning of Year	110	133	89
Cash and Cash Equivalents—End of Year	\$ 130	\$ 110	\$ 133

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

December 28, 2002 and December 29, 2001

(in millions)	2002	2001
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 130	\$ 110
Short-term investments, at cost	27	35
Accounts and notes receivable, less allowance: \$42 in 2002 and \$77 in 2001	168	190
Inventories	63	56
Assets classified as held for sale	111	44
Prepaid expenses and other current assets	110	114
Deferred income taxes	121	79
Total Current Assets	730	628
Property, plant and equipment, net	3,037	2,737
Goodwill, net	485	59
Intangible assets, net	364	399
Investments in unconsolidated affiliates	229	213
Other assets	555	389
Total Assets	\$ 5,400	\$ 4,425
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	\$ 1,166	\$ 1,032
Income taxes payable	208	114
Short-term borrowings	146	696
Total Current Liabilities	1,520	1,842
Long-term debt	2,299	1,552
Other liabilities and deferred credits	987	927
Total Liabilities	4,806	4,321
Shareholders' Equity		
Preferred stock, no par value, 250 shares authorized; no shares issued	—	—
Common stock, no par value, 750 shares authorized ; 294 shares and 293 shares issued in 2002 and 2001, respectively	1,046	1,097
Accumulated deficit	(203)	(786)
Accumulated other comprehensive income (loss)	(249)	(207)
Total Shareholders' Equity	594	104
Total Liabilities and Shareholders' Equity	\$ 5,400	\$ 4,425

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT) AND COMPREHENSIVE INCOME (LOSS)

Fiscal years ended December 28, 2002, December 29, 2001 and December 30, 2000

	Issued Common Stock		Accumulated Deficit	Other Comprehensive Income (Loss)	Total
(in millions)	Shares	Amount			
Balance at December 25, 1999	302	\$ 1,264	\$ (1,691)	\$ (133)	\$ (560)
Net income			413		413
Foreign currency translation adjustment				(44)	(44)
Comprehensive Income					369
Repurchase of shares of common stock	(12)	(216)			(216)
Employee stock option exercises (includes tax benefits of \$5 million)	4	46			46
Compensation-related events		39			39
Balance at December 30, 2000	294	\$ 1,133	\$ (1,278)	\$ (177)	\$ (322)
Net income			492		492
Foreign currency translation adjustment				(5)	(5)
Net unrealized loss on derivative instruments (net of tax benefits of \$1 million)				(1)	(1)
Minimum pension liability adjustment (net of tax benefits of \$14 million)				(24)	(24)
Comprehensive Income					462
Repurchase of shares of common stock	(5)	(100)			(100)
Employee stock option exercises (includes tax benefits of \$13 million)	4	58			58
Compensation-related events		6			6
Balance at December 29, 2001	293	\$ 1,097	\$ (786)	\$ (207)	\$ 104
Net income			583		583
Foreign currency translation adjustment				6	6
Net unrealized loss on derivative instruments (net of tax benefits of \$1 million)				(1)	(1)
Minimum pension liability adjustment (net of tax benefits of \$29 million)				(47)	(47)
Comprehensive Income					541
Repurchase of shares of common stock	(8)	(228)			(228)
Employee stock option exercises (includes tax benefits of \$49 million)	9	174			174
Compensation-related events		3			3
Balance at December 28, 2002	294	\$ 1,046	\$ (203)	\$ (249)	\$ 594

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in millions, except share data)

1 DESCRIPTION OF BUSINESS

NOTE

On May 16, 2002, Tricon Global Restaurants, Inc. changed its name to YUM! Brands, Inc. in order to better reflect our expanding portfolio of brands. In addition, on the same day, Tricon Restaurants International changed its name to YUM! Restaurants International.

YUM! Brands, Inc. and Subsidiaries (collectively referred to as "YUM" or the "Company") comprises the worldwide operations of KFC, Pizza Hut, Taco Bell and since May 7, 2002, Long John Silver's ("LJS") and A&W All-American Food Restaurants ("A&W") (collectively the "Concepts"), which were added when we acquired Yorkshire Global Restaurants, Inc. ("YGR"). YUM is the world's largest quick service restaurant company based on the number of system units, with nearly 33,000 units in more than 100 countries and territories of which approximately 36% are located outside the U.S. YUM was created as an independent, publicly owned company on October 6, 1997 (the "Spin-off Date") via a tax-free distribution by our former parent, PepsiCo, Inc. ("PepsiCo"), of our Common Stock (the "Distribution" or "Spin-off") to its shareholders. References to YUM throughout these Consolidated Financial Statements are made using the first person notations of "we," "us" or "our."

Through our widely-recognized Concepts, we develop, operate, franchise and license a system of both traditional and non-traditional quick service restaurants. Each Concept has proprietary menu items and emphasizes the preparation of food with high quality ingredients as well as unique recipes and special seasonings to provide appealing, tasty and attractive food at competitive prices. Our traditional restaurants feature dine-in, carryout and, in some instances, drive-thru or delivery service. Non-traditional units, which are principally licensed outlets, include express units and kiosks which have a more limited menu and operate in non-traditional locations like airports, gasoline service stations, convenience stores, stadiums, amusement parks and colleges, where a full-scale traditional outlet would not be practical or efficient. We are actively pursuing the strategy of multibranding, where two or more of our Concepts are operated in a single unit. In addition, we are testing multibranding options involving one of our Concepts and a restaurant concept not owned or affiliated with YUM.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTE

Our preparation of the accompanying Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the

date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

Principles of Consolidation and Basis of Preparation

Intercompany accounts and transactions have been eliminated. Certain investments in businesses that operate our Concepts are accounted for by the equity method. Generally, we possess 50% ownership of and 50% voting rights over these affiliates. Our lack of majority voting rights precludes us from controlling these affiliates, and thus we do not consolidate these affiliates. Our share of the net income or loss of those unconsolidated affiliates is included in other (income) expense.

We participate in various advertising cooperatives with our franchisees and licensees. In certain of these cooperatives we possess majority voting rights, and thus control the cooperatives. We have previously netted assets of the cooperatives we control with the related advertising payables. We have shown the assets and liabilities of these cooperatives on a gross basis in the Consolidated Balance Sheet for December 28, 2002, and reclassified amounts in the Consolidated Balance Sheet for December 29, 2001 accordingly. As the contributions are designated for advertising expenditures, any cash held by these cooperatives is considered restricted and is included in prepaid expenses and other current assets. Such restricted cash was approximately \$44 million and \$18 million at December 28, 2002 and December 29, 2001, respectively. Additionally, these cooperatives had receivables from franchisees of \$13 million and \$15 million and other current assets of \$3 million and \$4 million at December 28, 2002, and December 29, 2001, respectively, which have been included in our Consolidated Balance Sheets. As the contributions to these cooperatives are designated and segregated for advertising, we act as an agent for the franchisees and licensees with regard to these contributions. Thus, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 45, "Accounting for Franchise Fee Revenue," we do not reflect franchisee and licensee contributions to these cooperatives in our Consolidated Statements of Income.

Fiscal Year

Our fiscal year ends on the last Saturday in December and, as a result, a fifty-third week is added every five or six years. Fiscal year 2000 included 53 weeks. The Company's next fiscal year with 53 weeks will be 2005. The first three quarters of each fiscal year consist of 12 weeks and the fourth quarter consists of 17 weeks in fiscal years with 53 weeks and 16 weeks in fiscal years with 52 weeks. Our subsidiaries operate on similar fiscal calendars with period end dates suited to their businesses. The subsidiaries' period end dates are within one week of YUM's period end date with the exception of our international businesses, which close one period or one month earlier to facilitate consolidated reporting.

Reclassifications

We have reclassified certain items in the accompanying Consolidated Financial Statements and Notes thereto for prior periods to be comparable with the classification we adopted for the fiscal year ended December 28, 2002. These reclassifications had no effect on previously reported net income.

Franchise and License Operations

We execute franchise or license agreements for each unit which sets out the terms of our arrangement with the franchisee or licensee. Our franchise and license agreements typically require the franchisee or licensee to pay an initial, non-refundable fee and continuing fees based upon a percentage of sales. Subject to our approval and payment of a renewal fee, a franchisee may generally renew the franchise agreement upon its expiration.

We recognize initial fees as revenue when we have performed substantially all initial services required by the franchise or license agreement, which is generally upon the opening of a store. We recognize continuing fees as earned with an appropriate provision for estimated uncollectible amounts, which is included in franchise and license expenses. We recognize renewal fees in income when a renewal agreement becomes effective. We include initial fees collected upon the sale of a restaurant to a franchisee in franchising gains (losses). Fees for development rights are capitalized and amortized over the life of the development agreement.

We incur expenses that benefit both our franchise and license communities and their representative organizations and our company operated restaurants. These expenses, along with other costs of sales and servicing of franchise and license agreements are charged to general and administrative expenses as incurred. Certain direct costs of our franchise and license operations are charged to franchise and license expenses. These costs include provisions for estimated uncollectible fees, franchise and license marketing funding, amortization expense for franchise related intangible assets and certain other direct incremental franchise and license support costs. Franchise and license expenses also includes rental income from subleasing restaurants to franchisees net of the related occupancy costs.

We monitor the financial condition of our franchisees and licensees and record provisions for estimated losses on receivables when we believe that our franchisees or licensees are unable to make their required payments. While we use the best information available in making our determination, the ultimate recovery of recorded receivables is also dependent upon future economic events and other conditions that may be beyond our control. Included in franchise and license expenses are provisions for uncollectible franchise and license receivables of \$15 million, \$24 million and \$30 million in 2002, 2001 and 2000, respectively.

Direct Marketing Costs

We report substantially all of our direct marketing costs in occupancy and other operating expenses. We charge direct marketing costs to expense ratably in relation to revenues over the year in which incurred and, in the case of advertising production costs, in the year first shown. Deferred direct marketing costs, which are classified as prepaid expenses, consist of media and related advertising production costs which will generally be used for the first time in the next fiscal year. To the extent we participate in advertising cooperatives, we expense our contributions as incurred. At the end of 2002 and 2001, we had deferred marketing costs of \$8 million and \$2 million, respectively. Our advertising expenses were \$384 million, \$328 million and \$325 million in 2002, 2001 and 2000, respectively.

Research and Development Expenses

Research and development expenses, which we expense as incurred, were \$23 million in 2002, \$23 million in 2001 and \$24 million in 2000.

Impairment or Disposal of Long-Lived Assets

Effective December 30, 2001, the Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 retained many of the fundamental provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS 121"), but resolved certain implementation issues associated with that Statement. The adoption of SFAS 144 did not have a material impact on the Company's consolidated results of operations.

In accordance with SFAS 144, we review our long-lived assets related to each restaurant to be held and used in the business, including any allocated intangible assets subject to amortization, semi-annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount of a restaurant may not be recoverable. We evaluate restaurants using a "two-year history of operating losses" as our primary indicator of potential impairment. Based on the best information available, we write down an impaired restaurant to its estimated fair market value, which becomes its new cost basis. We generally measure estimated fair market value by discounting estimated future cash flows. In addition, when we decide to close a restaurant it is reviewed for impairment and depreciable lives are adjusted. The impairment evaluation is based on the estimated cash flows from continuing use through the expected disposal date and the expected terminal value.

Store closure costs include costs of disposing of the assets as well as other facility-related expenses from previously closed stores. These store closure costs are expensed as incurred. Additionally, at the date the closure is considered probable, we record a liability for the net present value of any remaining operating lease obligations subsequent to the expected closure date, net of estimated sublease income, if any.

Refanchising gains (losses) includes the gains or losses from the sales of our restaurants to new and existing franchisees and the related initial franchise fees, reduced by transaction costs and direct administrative costs of refanchising. In executing our refanchising initiatives, we most often offer groups of restaurants. We classify restaurants as held for sale and suspend depreciation and amortization when (a) we make a decision to refanchise; (b) the stores can be immediately removed from operations; (c) we have begun an active program to locate a buyer; (d) significant changes to the plan of sale are not likely; and (e) the sale is probable within one year. We recognize losses on refanchisings when the restaurants are classified as held for sale. We recognize gains on restaurant refanchisings when the sale transaction closes, the franchisee has a minimum amount of the purchase price in at-risk equity, and we are satisfied that the franchisee can meet its financial obligations. If the criteria for gain recognition are not met, we defer the gain to the extent we have a remaining financial exposure in connection with the sales transaction. Deferred gains are recognized when the gain recognition criteria are met or as our financial exposure is reduced. When we make a decision to retain a store previously held for sale, we revalue the store at the lower of its (a) net book value at our original sale decision date less normal depreciation and amortization that would have been recorded during the period held for sale or (b) its current fair market value. This value becomes the store's new cost basis. We charge (or credit) any difference between the store's carrying amount and its new cost basis to refanchising gains (losses). When we make a decision to close a store previously held for sale, we reverse any previously recognized refanchising loss and then record impairment and store closure costs as described above. Refanchising gains (losses) also include charges for estimated exposures related to those partial guarantees of franchisee loan pools and contingent lease liabilities which arose from refanchising activities. These exposures are more fully discussed in Note 24.

SFAS 144 also requires the results of operations of a component entity that is classified as held for sale or has been disposed of be reported as discontinued operations in the Consolidated Statements of Income if certain conditions are met. These conditions include elimination of the operations and cash flows of the component entity from the ongoing operations of the Company and no significant continuing involvement by the Company in the operations of the component entity after the disposal transaction. The results of operations of stores meeting both these conditions that were disposed of in 2002 or classified as held for sale at December 28, 2002 were not material for any of the three years ended December 28, 2002.

Considerable management judgment is necessary to estimate future cash flows, including cash flows from continuing use,

terminal value, closure costs, sublease income, and refanchising proceeds. Accordingly, actual results could vary significantly from our estimates.

Impairment of Investments in Unconsolidated Affiliates

Our methodology for determining and measuring impairment of our investments in unconsolidated affiliates is similar to the methodology we use for our restaurants except we use cash flows after interest and taxes instead of cash flows before interest and taxes as we use for our restaurants. Also, we record impairment charges related to investments in unconsolidated affiliates if circumstances indicate that a decrease in the value of an investment has occurred which is other than temporary.

Considerable management judgment is necessary to estimate future cash flows. Accordingly, actual results could vary significantly from our estimates.

Cash and Cash Equivalents

Cash equivalents represent funds we have temporarily invested (with original maturities not exceeding three months) as part of managing our day-to-day operating cash receipts and disbursements.

Inventories

We value our inventories at the lower of cost (computed on the first-in, first-out method) or net realizable value.

Property, Plant and Equipment

We state property, plant and equipment at cost less accumulated depreciation and amortization, impairment writedowns and valuation allowances. We calculate depreciation and amortization on a straight-line basis over the estimated useful lives of the assets as follows: 5 to 25 years for buildings and improvements, 3 to 20 years for machinery and equipment and 3 to 7 years for capitalized software costs. As discussed above, we suspend depreciation and amortization on assets related to restaurants that are held for sale.

Internal Development Costs and Abandoned Site Costs

We capitalize direct costs associated with the site acquisition and construction of a Company unit on that site, including direct internal payroll and payroll-related costs. Only those site-specific costs incurred subsequent to the time that the site acquisition is considered probable are capitalized. We consider acquisition probable upon final site approval. If we subsequently make a determination that a site for which internal development costs have been capitalized will not be acquired or developed, any previously capitalized internal development costs are expensed and included in general and administrative expenses.

Goodwill and Intangible Assets

The Company has adopted SFAS No. 141, "Business Combinations" ("SFAS 141"). SFAS 141 requires the use of the purchase method of

accounting for all business combinations and modifies the application of the purchase accounting method. Goodwill represents the excess of the cost of a business acquired over the net of the amounts assigned to assets acquired, including identifiable intangible assets, and liabilities assumed. SFAS 141 specifies criteria to be used in determining whether intangible assets acquired in a purchase method business combination must be recognized and reported separately from goodwill. We base amounts assigned to goodwill and other identifiable intangible assets on independent appraisals or internal estimates.

The Company has also adopted SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 eliminates the requirement to amortize goodwill and indefinite-lived intangible assets, addresses the amortization of intangible assets with a defined life, and addresses impairment testing and recognition for goodwill and indefinite-lived intangible assets. SFAS 142 applies to goodwill and intangible assets arising from transactions completed both before and after its effective date. As a result of adopting SFAS 142, we ceased amortization of goodwill and indefinite-lived intangible assets beginning December 30, 2001. Prior to the adoption of SFAS 142, we amortized goodwill on a straight-line basis up to 20 years and indefinite-lived intangible assets on a straight-line basis over 3 to 40 years. Amortizable intangible assets continue to be amortized on a straight-line basis over 3 to 40 years. As discussed above, we suspend amortization on those intangible assets with a defined life that are allocated to restaurants that are held for sale.

In accordance with the requirements of SFAS 142, goodwill has been assigned to reporting units for purposes of impairment testing. Our reporting units are our operating segments in the U.S. (see Note 23) and our business management units internationally (typically individual countries). Goodwill impairment tests consist of a comparison of each reporting unit's fair value with its carrying value. The fair value of a reporting unit is the amount for which the unit as a whole could be sold in a current transaction between willing parties. We generally estimate fair value based on discounted cash flows. If the carrying value of a reporting unit exceeds its fair value, goodwill is written down to its implied fair value. As required by SFAS 142, we completed transitional impairment tests of goodwill as of December 30, 2001, which indicated that there was no impairment. We have selected the beginning of our fourth quarter as the date on which to perform our ongoing annual impairment test. As a result of the poor performance by our Pizza Hut France reporting unit from the date of the transitional impairment test through September 8, 2002 (the beginning of our fourth quarter), goodwill assigned to that reporting unit of \$5 million was deemed impaired and written off in the fourth quarter.

See Note 12 for further discussion of SFAS 142.

Stock-Based Employee Compensation

At December 28, 2002, the Company had four stock-based employee compensation plans in effect, which are described more fully in Note 18. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 "Accounting for Stock-Based Compensation" to stock-based employee compensation.

	2002	2001	2000
Net Income, as reported	\$ 583	\$ 492	\$ 413
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(39)	(37)	(34)
Net Income, pro forma	544	455	379
Basic Earnings per Common Share:			
As reported	\$ 1.97	\$ 1.68	\$ 1.41
Pro forma	1.84	1.55	1.29
Diluted Earnings per Common Share:			
As reported	\$ 1.88	\$ 1.62	\$ 1.39
Pro forma	1.76	1.50	1.29

Derivative Financial Instruments

Our policy prohibits the use of derivative instruments for trading purposes, and we have procedures in place to monitor and control their use. Our use of derivative instruments has included interest rate swaps and collars, treasury locks and foreign currency forward contracts. In addition, on a limited basis we utilize commodity futures and options contracts. Our interest rate and foreign currency derivative contracts are entered into with financial institutions while our commodity derivative contracts are exchange traded.

We account for derivative financial instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 requires that all derivative instruments be recorded on the Consolidated Balance Sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument is dependent upon whether the derivative has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument as

well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in the results of operations. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Any ineffective portion of the gain or loss on the derivative instrument is recorded in the results of operations immediately. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in the results of operations immediately. See Note 16 for a discussion of our use of derivative instruments, management of credit risk inherent in derivative instruments and fair value information related to debt and interest rate swaps.

New Accounting Pronouncements Not Yet Adopted

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 addresses the financial accounting and reporting for legal obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS 143 is effective for the Company for fiscal year 2003. We currently do not anticipate that the adoption of SFAS 143 will have a material impact on our Consolidated Financial Statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). SFAS 146 addresses significant issues regarding the recognition, measurement, and reporting of costs associated with exit or disposal activities, and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Costs addressed by SFAS 146 include costs to terminate a contract that is not a capital lease, costs of involuntary employee termination benefits pursuant to a one-time benefit arrangement, costs to consolidate facilities, and costs to relocate employees. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. Although SFAS 146 will change the timing of expense recognition for certain costs we incur while closing restaurants or undertaking other exit or disposal activities, the timing difference is not expected to be significant in length. We do not anticipate that the adoption of SFAS 146 will have a material impact on our Consolidated Financial Statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure" ("SFAS 148"). SFAS 148 provides alternative methods of transition for a

voluntary change to the fair value method of accounting for stock-based employee compensation as required by SFAS 123. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. Our disclosure regarding the effects of stock-based compensation included in these notes is in compliance with SFAS 148.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others," an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34 ("FIN 45"). FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. FIN 45 also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The disclosure requirements of FIN 45 are included in Note 24. The initial recognition and measurement provisions are applicable to guarantees issued or modified after December 31, 2002. As described in Note 24, we have in the past provided certain guarantees that would have required recognition upon issuance or modification under the provisions of FIN 45. While the nature of our business will likely result in issuance of certain guarantee liabilities in the future, we do not anticipate that FIN 45 will have a material impact on the Consolidated Financial Statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities," an interpretation of ARB No. 51 ("FIN 46"). FIN 46 addresses the consolidation of entities whose equity holders have either (a) not provided sufficient equity at risk to allow the entity to finance its own activities or (b) do not possess certain characteristics of a controlling financial interest. FIN 46 requires the consolidation of these entities, known as variable interest entities ("VIEs"), by a primary beneficiary of the entity. A primary beneficiary is the entity, if any, that is subject to a majority of the risk of loss from the VIEs activities, entitled to receive a majority of the VIEs residual returns, or both. FIN 46 applies immediately to variable interests in VIEs created or obtained after January 31, 2003. For variable interests in a VIE created before February 1, 2003, FIN 46 is applied to the VIE no later than the end of the first interim or annual reporting period beginning after June 15, 2003 (the quarter ending September 6, 2003 for the Company). The Interpretation requires certain disclosures in financial statements issued after January 31, 2003, if it is reasonably possible that the Company will consolidate or disclose information about variable interest entities when the Interpretation becomes effective.

As discussed further in Note 24, we have posted \$32 million of letters of credit supporting our guarantee of franchisee loan pools. Additionally, we have provided a standby letter of credit under which we could potentially be required to fund a portion (up to \$25 million) of one of the franchisee loan pools. The letters of credit were issued under our existing bank credit agreement (see Note 14). These franchisee loan pools primarily funded purchases of restaurants from the Company and, to a lesser extent, franchisee development of new restaurants. The total loans outstanding under these loan pools were approximately \$153 million and \$180 million at December 28, 2002 and December 29, 2001, respectively. Our maximum exposure to loss as a result of our involvement with these franchisee loan pools was \$57 million at December 28, 2002. We are in the process of determining if we are the primary beneficiary of these VIEs. We currently believe that it is reasonably possible we are the primary beneficiary and thus we would be required to consolidate these VIEs, as they are currently structured, upon FIN 46 becoming effective for the Company. We are currently evaluating alternative structures related to these franchisee loan pools.

The Company along with representatives of the franchisee groups of each of its Concepts has formed purchasing cooperatives for the purpose of purchasing certain restaurant products and equipment in the U.S. Our equity ownership in each cooperative is generally proportional to our percentage ownership of the U.S. system units for the Concept. We are continuing to evaluate whether any of these cooperatives are VIEs under the provisions of FIN 46 and, if so, whether we are the primary beneficiary. We do not currently believe that consolidation will be required for any of these cooperatives as a result of our adoption of FIN 46.

TWO-FOR-ONE COMMON STOCK SPLIT

NOTE

On May 7, 2002, the Company announced that its Board of Directors approved a two-for-one split of the Company's outstanding shares of Common Stock. The stock split was effected in the form of a stock dividend and entitled each shareholder of record at the close of business on June 6, 2002 to receive one additional share for every outstanding share of Common Stock held on the record date. The stock dividend was distributed on June 17, 2002, with approximately 149 million shares of common stock distributed. All per share and share amounts in the accompanying Consolidated Financial Statements and Notes to the Financial Statements have been adjusted to reflect the stock split.

YGR ACQUISITION

NOTE

On May 7, 2002, YUM completed its acquisition of YGR. At the date of acquisition, YGR consisted of 742 and 496 company and franchise U.S. units, respectively, and 127 and 742 company and franchise A&W units, respectively. In addition, 133 multibranded U.S./A&W restaurants were included in the U.S. unit totals. This acquisition was made to facilitate our strategic objective of achieving growth through multibranding, where two or more of our Concepts are operated in a single restaurant unit.

We paid approximately \$275 million in cash and assumed approximately \$48 million of bank indebtedness in connection with the acquisition of YGR. The purchase price was allocated to the assets acquired and liabilities assumed based on estimates of their fair values at the date of acquisition. We determined these fair values with the assistance of a third party valuation expert.

The following table summarizes the fair values of YGR's assets acquired and liabilities assumed at the date of acquisition.

Current assets	\$ 35
Property, plant and equipment	58
Intangible assets	250
Goodwill	209
Other assets	85
Total assets acquired	637
Current liabilities	100
Long-term debt, including current portion	59
Future rent obligations related to sale-leaseback agreements	168
Other long-term liabilities	35
Total liabilities assumed	362
Net assets acquired (net cash paid)	\$ 275

Of the \$250 million in acquired intangible assets, \$212 million was assigned to brands/trademarks, which have indefinite lives and are not subject to amortization. The remaining acquired intangible assets primarily consist of franchise contract rights which will be amortized over thirty years, the typical term of a YGR franchise agreement including renewals. Of the \$212 million in brands/trademarks approximately \$191 million and \$21 million were assigned to the U.S. and International operating segments, respectively. Of the \$38 million in intangible assets subject to amortization, approximately \$31 million and \$7 million were assigned to the U.S. and International operating segments, respectively.

The \$209 million in goodwill was primarily assigned to the U.S. operating segment. As we acquired the stock of YGR, none of the goodwill is expected to be deductible for income tax purposes.

Liabilities assumed included approximately \$48 million of bank indebtedness that was paid off prior to the end of the second quarter of 2002 and approximately \$11 million in capital lease obligations. We also assumed approximately \$168 million in present value of future rent obligations related to existing sale-leaseback agreements entered into by YGR involving approximately 350 LJS units. As a result of liens held by the buyer/lessor on certain personal property within the units, the sale-leaseback agreements have been accounted for as financings and reflected as debt.

Additionally, as of the date of acquisition we recorded approximately \$49 million of reserves ("exit liabilities") related to our plans to consolidate certain support functions, and exit certain markets through store refreshings and closures, as presented in the table below. The consolidation of certain support functions included the termination of approximately 100 employees. Plans associated with exiting certain markets through store refreshings and closures are expected to be finalized prior to May 7, 2003. Adjustments to the purchase price allocation related to the finalization of these plans are not expected to be material. The unpaid exit liabilities as of December 28, 2002 have been reflected on our Consolidated Balance Sheet as accounts payable and other current liabilities (\$30 million) and other liabilities and deferred credits (\$10 million). Amounts recorded as other liabilities and deferred credits are expected to result in payments principally in 2004.

	Severance Benefits	Lease and Other Contract Terminations	Other Costs	Total
Total reserve as of May 7, 2002	\$ 13	\$ 31	\$ 5	\$ 49
Amounts utilized in 2002	(8)	—	(1)	(9)
Total reserve as of December 28, 2002	\$ 5	\$ 31	\$ 4	\$ 40

Additionally, we expensed approximately \$6 million of integration costs related to the acquisition in 2002. These costs were recorded as unusual items expense. See Note 7 for further discussion regarding unusual items (income) expense.

The results of operations for YGR have been included in our Consolidated Financial Statements since the date of acquisition. If the acquisition had been completed as of the beginning of the years ended December 28, 2002 and December 29, 2001, pro forma Company sales, and franchise and license fees would have been as follows:

	2002	2001
Company sales	\$ 7,139	\$ 6,683
Franchise and license fees	877	B39

The impact of the acquisition, including interest expense on debt incurred to finance the acquisition, on net income and diluted earnings per share would not have been significant in 2002 and 2001.

The pro forma information is not necessarily indicative of the results of operations had the acquisition actually occurred at the beginning of each of these periods nor is it necessarily indicative of future results.

5 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

NOTE

Accumulated other comprehensive income (loss), net of tax, includes:

	2002	2001
Foreign currency translation adjustment	\$ (176)	\$ (182)
Minimum pension liability adjustment	(71)	(24)
Unrealized losses on derivative instruments	(2)	(1)
Total accumulated other comprehensive income (loss)	\$ (249)	\$ (207)

6 EARNINGS PER COMMON SHARE ("EPS")

NOTE

	2002	2001	2000
Net income	\$ 583	\$ 492	\$ 413
Basic EPS:			
Weighted-average common shares outstanding	296	293	294
Basic EPS	\$ 1.97	\$ 1.68	\$ 1.41
Diluted EPS:			
Weighted-average common shares outstanding	296	293	294
Shares assumed issued on exercise of dilutive share equivalents	56	55	37
Shares assumed purchased with proceeds of dilutive share equivalents	(42)	(44)	(33)
Shares applicable to diluted earnings	310	304	298
Diluted EPS	\$ 1.88	\$ 1.62	\$ 1.39

Unexercised employee stock options to purchase approximately 1.4 million, 5.1 million and 21.7 million shares of our Common Stock for the years ended December 28, 2002, December 29, 2001 and December 30, 2000, respectively, were not included in the computation of diluted EPS because their exercise prices were greater than the average market price of our Common Stock during the year.

ITEMS AFFECTING COMPARABILITY OF NET INCOME

NOTE

Facility Actions Net Loss (Gain)

Facility actions net loss (gain) consists of the following components as described in Note 2:

- Refranchising net (gains) losses;
- Store closure costs;
- Impairment of long-lived assets for stores we intend to continue to use in the business and stores we intend to close;
- Impairment of goodwill subsequent to the adoption of SFAS 142.

	2002	2001	2000
U.S.			
Refranchising net (gains) losses ^{(a)(b)}	\$ (4)	\$ (44)	\$ (202)
Store closure costs	8	13	6
Store impairment charges	15	14	8
SFAS 142 goodwill impairment charges	—	—	—
Facility actions net loss (gain)	19	(17)	(188)
International			
Refranchising net (gains) losses ^{(c)(d)}	(15)	5	2
Store closure costs	7	4	4
Store impairment charges	16	9	6
SFAS 142 goodwill impairment charges ^(d)	5	—	—
Facility actions net loss (gain)	13	18	12
Worldwide			
Refranchising net (gains) losses ^{(c)(d)}	(19)	(39)	(200)
Store closure costs	15	17	10
Store impairment charges ^(d)	31	23	14
SFAS 142 goodwill impairment charges ^(d)	5	—	—
Facility actions net loss (gain)	\$ 32	\$ 1	\$ (176)

(a) Includes initial franchise fees in the U.S. of \$1 million in 2002, \$4 million in 2001, and \$17 million in 2000 and in International of \$5 million in 2002 and \$3 million in both 2001 and 2000. See Note 9.

(b) In 2001, U.S. refranchising net (gains) included \$12 million of previously deferred refranchising gains and International refranchising net (gains) losses included a charge of \$11 million to mark to market the net assets of the Singapore business, which was held for sale. The Singapore business was subsequently sold during the third quarter of 2002.

(c) Represents a \$5 million charge related to the impairment of the goodwill of our Pizza Hut reporting unit.

(d) Store impairment charges for 2002, 2001 and 2000 were recorded against the following asset categories:

	2002	2001	2000
Property, plant and equipment	\$ 31	\$ 23	\$ 12
Goodwill	—	—	2
Total impairment	\$ 31	\$ 23	\$ 14

The following table summarizes the 2002 and 2001 activity related to reserves for remaining lease obligations for stores we intend to close:

	Beginning Balance	Amounts Used	New Decisions	Estimated Decision Changes	Other	Ending Balance
2001 Activity	\$ 50	(18)	6	1	9	\$ 48
2002 Activity	\$ 48	(17)	16	3	1	\$ 51

The following table summarizes the carrying values of the major classes of assets held for sale at December 28, 2002 and December 29, 2001. The carrying values of liabilities held for sale at December 28, 2002 and December 29, 2001 were not significant. U.S. amounts primarily represent land on which we previously operated restaurants and are net of impairment charges of \$4 million and \$5 million, respectively. The carrying values in International at December 28, 2002 relate primarily to our Puerto Rico business. The carrying values in International at December 29, 2001 relate primarily to our Singapore business, net of impairment charges of \$11 million. We subsequently sold the Singapore business during the third quarter of 2002 at a price approximately equal to its carrying value, net of impairment.

	December 28, 2002		
	U.S.	International	Worldwide
Property, plant and equipment, net	\$ 7	\$ 89	\$ 96
Goodwill	—	13	13
Other assets	—	2	2
Assets classified as held for sale	\$ 7	\$ 104	\$ 111

	December 29, 2001		
	U.S.	International	Worldwide
Property, plant and equipment, net	\$ 8	\$ 32	\$ 40
Other assets	—	4	4
Assets classified as held for sale	\$ 8	\$ 36	\$ 44

The following table summarizes Company sales and restaurant profit related to stores held for sale at December 28, 2002 or disposed of through refranchising or closure during 2002, 2001 and 2000. As discussed in Note 2, the operations of such stores classified as held for sale as of December 28, 2002 or disposed of during 2002 which meet the conditions of SFAS 144 for reporting as discontinued operations were not material. Restaurant profit represents Company sales less the cost of food and paper,

payroll and employee benefits and occupancy and other operating expenses.

	2002	2001	2000
Stores held for sale at December 28, 2002:			
Sales	\$ 228	\$ 228	\$ 221
Restaurant profit	31	26	28
Stores disposed of in 2002, 2001 and 2000:			
Sales	\$ 147	\$ 436	\$ 948
Restaurant profit	20	43	115

Restaurant margin includes a benefit from the suspension of depreciation and amortization of approximately \$6 million, \$1 million and \$2 million in 2002, 2001 and 2000, respectively.

Unusual Items (Income) Expense

	2002	2001	2000
U.S.	\$ 3	\$ 15	\$ 29
International	(1)	—	8
Unallocated	(29)	(18)	167
Worldwide	\$ (27)	\$ (3)	\$ 204

Unusual items income in 2002 primarily included: (a) recoveries of approximately \$39 million related to the AmeriServe Food Distribution Inc. ("AmeriServe") bankruptcy reorganization process; less (b) integration costs of approximately \$6 million related to the YGR acquisition; and (c) costs to defend certain wage and hour litigation. See Note 25 for discussions of the AmeriServe bankruptcy reorganization process.

Unusual items income in 2001 primarily included: (a) recoveries of approximately \$21 million related to the AmeriServe bankruptcy reorganization process; less (b) aggregate settlement costs of \$15 million associated with certain litigation; and (c) expenses, primarily severance, related to decisions to streamline certain support functions. The reserves established related to decisions to streamline certain support functions were utilized in 2002.

Unusual items expense in 2000 included: (a) \$170 million of expenses related to the AmeriServe bankruptcy reorganization process; (b) an increase in the estimated costs of settlement of certain wage and hour litigation along with the associated defense costs incurred in 2000; (c) costs associated with the formation of new unconsolidated affiliates; less (d) the reversal of excess provisions arising from the resolution of a dispute associated with the disposition of our non-core businesses, which is discussed in Note 24.

8 SUPPLEMENTAL CASH FLOW DATA

NOTE

	2002	2001	2000
Cash Paid for:			
Interest	\$ 153	\$ 164	\$ 194
Income taxes	200	264	252
Significant Non-Cash			
Investing and Financing Activities:			
Assumption of debt and capital leases related to the acquisition of YGR	\$ 227	\$ —	\$ —
Capital lease obligations incurred to acquire assets	23	18	4
Issuance of promissory note to acquire an unconsolidated affiliate	—	—	25
Contribution of non-cash net assets to an unconsolidated affiliate	—	21	67
Assumption of liabilities in connection with a franchisee acquisition	—	36	6
Fair market value of assets received in connection with a non-cash acquisition	—	9	—

9 FRANCHISE AND LICENSE FEES

NOTE

	2002	2001	2000
Initial fees, including renewal fees	\$ 33	\$ 32	\$ 48
Initial franchise fees included in franchising gains	(6)	(7)	(20)
	27	25	28
Continuing fees	839	790	760
	\$ 866	\$ 815	\$ 788

10 OTHER (INCOME) EXPENSE

NOTE

	2002	2001	2000
Equity income from investments in unconsolidated affiliates	\$ (29)	\$ (26)	\$ (25)
Foreign exchange net (gain) loss	(1)	3	—
	\$ (30)	\$ (23)	\$ (25)

11**PROPERTY, PLANT AND EQUIPMENT, NET****NOTE**

	2002	2001
Land	\$ 621	\$ 572
Buildings and improvements	2,742	2,569
Capital leases, primarily buildings	102	91
Machinery and equipment	1,736	1,628
	5,201	4,860
Accumulated depreciation and amortization	(2,164)	(2,123)
	\$ 3,037	\$ 2,737

Depreciation and amortization expense related to property, plant and equipment was \$357 million, \$320 million and \$319 million in 2002, 2001 and 2000, respectively.

12**GOODWILL AND INTANGIBLE ASSETS****NOTE**

The Company's business combinations have included acquiring restaurants from our franchisees. Prior to the adoption of SFAS 141, the primary intangible asset to which we generally allocated value

in these business combinations was reacquired franchise rights. We determined that reacquired franchise rights did not meet the criteria of SFAS 141 to be recognized as an asset apart from goodwill. Accordingly, on December 30, 2001, we reclassified \$241 million of reacquired franchise rights to goodwill, net of related deferred tax liabilities of \$53 million.

The changes in the carrying amount of goodwill, net for the year ended December 28, 2002 is as follows:

	U.S.	International	Worldwide
Balance as of December 29, 2001	\$ 21	\$ 38	\$ 59
Reclassification of reacquired franchise rights ^(a)	145	96	241
Impairment ^(b)	—	(5)	(5)
Acquisitions, disposals and other, net ^(c)	206	(16)	190
Balance as of December 28, 2002	\$ 372	\$ 113	\$ 485

(a) Amounts reported net of deferred tax liabilities of \$27 million for the U.S. and \$26 million for International.

(b) Represents impairment of the goodwill of the Pizza Hut France reporting unit. Impairment was recorded in connection with our annual impairment review performed as of the beginning of the fourth quarter, and resulted from the poor performance of the Pizza Hut France reporting unit during 2002.

(c) Includes goodwill related to the YGR purchase price allocation. For International, includes a \$13 million transfer of goodwill to assets held for sale (see Note 7).

Intangible assets, net for the years ended 2002 and 2001 are as follows:

	2002		2001	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets				
Franchise contract rights	\$ 135	\$ (43)	\$ 102	\$ (40)
Favorable operating leases	21	(13)	13	(11)
Pension-related intangible	18	—	8	—
Other	26	(23)	23	(21)
	\$ 200	\$ (79)	\$ 146	\$ (72)
Unamortized intangible assets				
Brand/Trademarks		\$ 243		\$ 31

As noted above, on December 30, 2001, we reclassified \$241 million of reacquired franchise rights to goodwill, net of related deferred tax liabilities of \$53 million.

As a result of adopting SFAS 142, we ceased amortization of goodwill and indefinite-lived intangible assets beginning December 30, 2001. Amortization expense for definite-lived intangible assets was \$6 million in 2002. Amortization expense for goodwill and all intangible assets was \$37 million and \$38 million in 2001 and 2000, respectively. Amortization expense for definite-lived intangible assets will approximate \$5 million for each of the next five years.

The following table provides a reconciliation of reported net income to adjusted net income as though SFAS 142 had been effective for the years ended 2001 and 2000:

	2001		
	Amount	Basic EPS	Diluted EPS
Reported net income	\$ 492	\$ 1.68	\$ 1.62
Add back amortization expense (net of tax):			
Goodwill	25	0.09	0.09
Brand/Trademarks	1	—	—
Adjusted net income	\$ 518	\$ 1.77	\$ 1.71
	2000		
	Amount	Basic EPS	Diluted EPS
Reported net income	\$ 413	\$ 1.41	\$ 1.39
Add back amortization expense (net of tax):			
Goodwill	23	0.08	0.08
Brand/Trademarks	1	—	—
Adjusted net income	\$ 437	\$ 1.49	\$ 1.47

13 ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

NOTE

	2002	2001
Accounts payable	\$ 417	\$ 353
Accrued compensation and benefits	258	210
Other current liabilities	491	469
	\$1,166	\$1,032

14 SHORT-TERM BORROWINGS AND LONG-TERM DEBT

NOTE

	2002	2001
Short-term Borrowings		
Current maturities of long-term debt	\$ 12	\$ 545
International lines of credit	115	138
Other	19	13
	\$ 146	\$ 696
Long-term Debt		
Senior, unsecured Term Loan Facility	\$ —	\$ 442
Senior, unsecured Revolving Credit Facility, expires June 2005	153	94
Senior, Unsecured Notes, due May 2005	351	351
Senior, Unsecured Notes, due April 2006	200	198
Senior, Unsecured Notes, due May 2008	251	251
Senior, Unsecured Notes, due April 2011	645	644
Senior, Unsecured Notes, due July 2012	398	—
Capital lease obligations (See Note 15)	99	79
Other, due through 2010 (6% - 12%)	170	4
	2,267	2,063
Less current maturities of long-term debt	(12)	(545)
Long-term debt excluding SFAS 133 adjustment	2,255	1,518
Derivative instrument adjustment under SFAS 133 (See Note 16)	44	34
Long-term debt including SFAS 133 adjustment	\$ 2,299	\$ 1,552

On June 25, 2002, we closed on a new \$1.4 billion senior unsecured Revolving Credit Facility (the "New Credit Facility"). The New Credit Facility replaced the existing bank credit agreement which was comprised of a senior unsecured Term Loan Facility and a \$1.75 billion senior unsecured Revolving Credit Facility (collectively referred to as the "Old Credit Facilities") that were scheduled to mature on October 2, 2002. Amounts outstanding under the Old Credit Facilities were classified as short-term borrowings in the Consolidated Balance Sheet at December 29, 2001. On December 27, 2002, we voluntarily reduced our maximum borrowing limit under the New Credit Facility to \$1.2 billion. The New Credit Facility matures on June 25, 2005. We used the initial borrowings under the New Credit Facility to repay the indebtedness under the Old Credit Facilities.

The New Credit Facility is unconditionally guaranteed by our principal domestic subsidiaries and contains other terms and provisions (including representations, warranties, covenants,

conditions and events of default similar to those set forth in the Old Credit Facilities. Specifically, the New Credit Facility contains financial covenants relating to maintenance of leverage and fixed charge coverage ratios. The New Credit Facility also contains affirmative and negative covenants including, among other things, limitations on certain additional indebtedness, guarantees of indebtedness, cash dividends, aggregate non-U.S. investment and certain other transactions as defined in the agreement.

Under the terms of the New Credit Facility, we may borrow up to the maximum borrowing limit less outstanding letters of credit. At December 28, 2002, our unused New Credit Facility totaled \$0.9 billion, net of outstanding letters of credit of \$0.2 billion. The interest rate for borrowings under the New Credit Facility ranges from 1.00% to 2.00% over the London Interbank Offered Rate ("LIBOR") or 0.00% to 0.65% over an Alternate Base Rate, which is the greater of the Prime Rate or the Federal Funds Effective Rate plus 1%. The exact spread over LIBOR or the Alternate Base Rate, as applicable, will depend upon our performance under specified financial criteria. Interest is payable at least quarterly. In the third quarter of 2002, we capitalized debt issuance costs of approximately \$9 million related to the New Credit Facility. The costs will be amortized into interest expense over the life of the New Credit Facility. At December 28, 2002, the weighted average contractual interest rate on borrowings outstanding under the New Credit Facility was 2.6%.

In 2002, we expensed facility fees of approximately \$5 million, which was comprised of \$3 million related to the New Credit Facility and \$2 million related to the Old Credit Facilities, prior to being replaced. In both 2001 and 2000, we expensed facility fees of approximately \$4 million related to the Old Credit Facilities.

In 1997, we filed a shelf registration statement with the Securities Exchange Commission for offerings of up to \$2 billion of senior unsecured debt. In June 2002, we issued \$400 million of 7.70% Senior Unsecured Notes due July 1, 2012 (the "2012 Notes"). The net proceeds from the issuance of the 2012 Notes were used to repay indebtedness under the New Credit Facility. Additionally, we capitalized debt issuance costs of approximately \$5 million related to the 2012 Notes in the third quarter of 2002. The following table summarizes all Senior Unsecured Notes issued under this shelf registration through December 28, 2002:

Issuance Date	Maturity Date	Principal Amount	Interest Rate Stated	Interest Rate Effective ^(a)
May 1998	May 2005 ^(b)	\$ 350	7.45%	7.62%
May 1998	May 2008 ^(b)	250	7.65%	7.81%
April 2001	April 2006 ^(b)	200	8.50%	9.04%
April 2001	April 2011 ^(b)	650	8.88%	9.20%
June 2002	July 2012 ^(c)	400	7.70%	8.04%

(a) Interest payments commenced on November 15, 1998 and are payable semi-annually thereafter.

(b) Interest payments commenced on October 15, 2001 and are payable semi-annually thereafter.

(c) Interest payments commenced on January 1, 2003 and are payable semi-annually thereafter.

(d) Includes the effects of the amortization of any (i) premium or discount, (ii) debt issuance costs; and (iii) gain or loss upon settlement of related treasury locks. Does not include the effect of any interest rate swaps as described in Note 16.

We have \$150 million remaining for issuance under the \$2 billion shelf registration.

As discussed in Note 4, upon the acquisition of YGR, we assumed approximately \$168 million in present value of future rent obligations related to certain sale-leaseback agreements entered into by YGR involving approximately 350 LJS units. As a result of liens held by the buyer/lessor on certain personal property within the units, the sale-leaseback agreements have been accounted for as financings and are reflected as debt in our Consolidated Financial Statements as of December 28, 2002. Rental payments made under these agreements will be made on a monthly basis through 2019 with an effective interest rate of approximately 11%.

The annual maturities of long-term debt as of December 28, 2002, excluding capital lease obligations of \$99 million and derivative instrument adjustments of \$44 million, are as follows:

Year ended:

2003	\$ 2
2004	2
2005	506
2006	203
2007	4
Thereafter	1,456
Total	\$2,173

Interest expense on short-term borrowings and long-term debt was \$180 million, \$172 million and \$190 million in 2002, 2001 and 2000, respectively. Net interest expense of \$9 million on incremental borrowings related to the AmeriServe bankruptcy reorganization process was included in unusual items (income) expense in 2000.

15 LEASES

NOTE

We have non-cancelable commitments under both capital and long-term operating leases, primarily for our restaurants. Capital and operating lease commitments expire at various dates through 2087 and, in many cases, provide for rent escalations and renewal options. Most leases require us to pay related executory costs, which include property taxes, maintenance and insurance.

Future minimum commitments and amounts to be received as lessor or sublessor under non-cancelable leases are set forth below:

	Commitments		Lease Receivables	
	Capital	Operating	Direct Financing	Operating
2003	\$ 14	\$ 276	\$ 2	\$ 11
2004	14	243	3	10
2005	13	213	3	9
2006	12	179	2	8
2007	11	158	2	7
Thereafter	117	905	19	45
	\$ 181	\$1,974	\$ 31	\$ 90

At year-end 2002, the present value of minimum payments under capital leases was \$99 million.

The details of rental expense and income are set forth below:

	2002	2001	2000
Rental expense			
Minimum	\$ 318	\$ 283	\$ 253
Contingent	25	10	28
	\$ 343	\$ 293	\$ 281
Minimum rental income	\$ 11	\$ 14	\$ 18

Contingent rentals are generally based on sales levels in excess of stipulated amounts contained in the lease agreements.

16 FINANCIAL INSTRUMENTS

NOTE

Derivative Instruments

Interest Rates

We enter into interest rate swaps and forward rate agreements with the objective of reducing our exposure to interest rate risk and lowering interest expense for a portion of our debt. Under the contracts, we agree with other parties to exchange, at specified intervals, the difference between variable rate and fixed rate amounts calculated on a notional principal amount. At both December 28, 2002 and December 29, 2001, we had outstanding pay-variable interest rate swaps with notional amounts of \$350 million. These swaps have reset dates and floating rate indices which match those of our underlying fixed-rate debt and have been designated as fair value hedges of a portion of that debt. As the swaps qualify for the short-cut method under SFAS 133 no ineffectiveness has been recorded. The fair value of these swaps as of December 28, 2002 and December 29, 2001 was approximately \$48 million and \$36 million, respectively, and has been included in other assets. The portion of this fair value which has not yet been recognized as a reduction to interest expense (approximately \$44 million and \$34 million at December 28, 2002 and December 29, 2001, respectively) has been included in long-term debt.

During the second quarter of 2002, we entered into treasury locks with notional amounts totaling \$250 million. These treasury locks were entered into to hedge the risk of changes in future interest payments attributable to changes in the benchmark interest rate prior to issuance of additional fixed-rate debt. These locks were designated and effective in offsetting the variability in cash flows associated with the future interest payments on a portion of the 2012 Notes. Thus, the insignificant loss at which these treasury locks were settled will be recognized as an increase to interest on the debt through 2012.

At December 29, 2001, we had outstanding pay-fixed interest rate swaps with a notional amount of \$650 million. These swaps had been designated as cash flow hedges of a portion of our variable-rate debt. As the critical terms of the swaps and hedged interest payments were the same, we determined that the swaps were completely effective in offsetting the variability in cash flows associated with interest payments on that debt due to interest rate fluctuations. During 2002, due to decreased borrowings under our New Credit Facility, interest rate swaps with a notional amount of \$150 million were terminated. An insignificant amount was reclassified from accumulated other comprehensive income to interest expense as a result of this termination. The remaining interest swaps with notional amounts of \$500 million matured during 2002.

Foreign Exchange

We enter into foreign currency forward contracts with the objective of reducing our exposure to cash flow volatility arising from foreign currency fluctuations associated with certain foreign currency denominated financial instruments, the majority of which are inter-company short-term receivables and payables. The notional amount, maturity date, and currency of these contracts match those of the underlying receivables or payables. For those foreign currency exchange forward contracts that we have designated as cash flow hedges, we measure ineffectiveness by comparing the cumulative change in the forward contract with the cumulative change in the hedged item. No ineffectiveness was recognized in 2002 or 2001 for those foreign currency forward contracts designated as cash flow hedges.

Commodities

We also utilize on a limited basis commodity futures and options contracts to mitigate our exposure to commodity price fluctuations over the next twelve months. Those contracts have not been designated as hedges under SFAS 133. Commodity future and options contracts entered into for the fiscal years ended December 28, 2002 and December 29, 2001 did not significantly impact the Consolidated Financial Statements.

Deferred Amounts in Accumulated

Other Comprehensive Income (Loss)

As of December 28, 2002, we had a net deferred loss associated with cash flow hedges of approximately \$2 million, net of tax. Of this amount, we estimate that a net after-tax loss of less than \$1 million will be reclassified into earnings through December 27, 2003. The remaining net after-tax loss of approximately \$2 million, which arose from the settlement of treasury locks entered into prior to the issuance of certain amounts of our fixed-rate debt, will be reclassified into earnings from December 28, 2003 through 2012 as an increase to interest expense on this debt.

Credit Risks

Credit risk from interest rate swap, treasury lock and forward rate agreements and foreign exchange contracts is dependent both on movement in interest and currency rates and the possibility of non-payment by counterparties. We mitigate credit risk by entering into these agreements with high-quality counterparties, and netting swap and forward rate payments within contracts.

Accounts receivable consists primarily of amounts due from franchisees and licensees for initial and continuing fees. In addition, we have notes and lease receivables from certain of our franchisees. The financial condition of these franchisees and licensees is largely dependent upon the underlying business trends of our Concepts. This concentration of credit risk is mitigated, in part, by the large number of franchisees and licensees of each Concept and the short-term nature of the franchise and license fee receivables.

Fair Value

At December 28, 2002 and December 29, 2001, the fair values of cash and cash equivalents, short-term investments, accounts receivable, and accounts payable approximated carrying value because of the short-term nature of these instruments. The fair value of notes receivable approximate carrying value after consideration of recorded allowances.

The carrying amounts and fair values of our other financial instruments subject to fair value disclosures are as follows:

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Debt				
Short-term borrowings and long-term debt, excluding capital leases and the derivative instrument adjustments	\$ 2,302	\$ 2,470	\$2,135	\$ 2,215
Debt-related derivative instruments:				
Open contracts in a net asset position	48	48	37	37
Foreign currency-related derivative instruments:				
Open contracts in a net asset (liability) position	(1)	(1)	5	5
Lease guarantees	2	42	2	35
Guarantees supporting financial arrangements of certain franchisees, unconsolidated affiliates and other third parties	16	21	17	21
Letters of credit	—	3	—	1

We estimated the fair value of debt, debt-related derivative instruments, foreign currency-related derivative instruments, guarantees and letters of credit using market quotes and calculations based on market rates.

17 PENSION AND POSTRETIREE MEDICAL BENEFITS

NOTE

Pension Benefits

We sponsor noncontributory defined benefit pension plans covering substantially all full-time U.S. salaried employees, certain hourly employees and certain international employees. During 2001, the YUM Retirement Plan (the "Plan") was amended such that any salaried employee hired or rehired by YUM after September 30, 2001 will not be eligible to participate in the Plan. Benefits are based on years of service and earnings or stated amounts for each year of service.

Postretirement Medical Benefits

Our postretirement plan provides health care benefits, principally to U.S. salaried retirees and their dependents. This plan includes retiree cost sharing provisions. During 2001, the plan was amended such that any salaried employee hired or rehired by YUM after September 30, 2001 will not be eligible to participate in this plan. Employees hired prior to September 30, 2001 are eligible for benefits if they meet age and service requirements and qualify for retirement benefits.

The components of net periodic benefit cost are set forth below:

	Pension Benefits		
	2002	2001	2000
Service cost	\$ 22	\$ 20	\$ 19
Interest cost	31	28	24
Amortization of prior service cost	1	1	1
Expected return on plan assets	(28)	(29)	(25)
Recognized actuarial loss	1	1	—
Net periodic benefit cost	\$ 27	\$ 21	\$ 19
Additional loss (gain) recognized due to:			
Curtailment	\$ 1	\$ —	\$ (4)
Special termination benefits	—	2	—

	Postretirement Medical Benefits		
	2002	2001	2000
Service cost	\$ 2	\$ 2	\$ 2
Interest cost	4	4	3
Amortization of prior service cost	—	(1)	(1)
Recognized actuarial loss	1	—	—
Net periodic benefit cost	\$ 7	\$ 5	\$ 4
Additional loss (gain) recognized due to:			
Curtailment	\$ —	\$ —	\$ (1)

Prior service costs are amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits. Curtailment gains and losses have generally been recognized in facility actions net loss (gain) as they have resulted primarily from franchising and closure activities.

The change in benefit obligation and plan assets and reconciliation of funded status is as follows:

	Pension Benefits		Postretirement Medical Benefits	
	2002	2001	2002	2001
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 420	\$ 351	\$ 58	\$ 48
Service cost	22	20	2	2
Interest cost	31	28	4	4
Plan amendments	14	1	—	—
Special termination benefits	—	2	—	—
Curtailment (gain)	(3)	(3)	—	—
Benefits and expenses paid	(16)	(17)	(3)	(3)
Actuarial loss	33	38	7	7
Benefit obligation at end of year	\$ 501	\$ 420	\$ 68	\$ 58
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 291	\$ 313		
Actual return on plan assets	(24)	(51)		
Employer contributions	1	48		
Benefits paid	(16)	(17)		
Administrative expenses	(1)	(2)		
Fair value of plan assets at end of year	\$ 251	\$ 291		
Reconciliation of funded status				
Funded status	\$ (250)	\$ (129)	\$ (68)	\$ (58)
Employer contributions ⁽¹⁾	25	—	—	—
Unrecognized actuarial loss	169	87	18	12
Unrecognized prior service cost	16	4	—	—
Net amount recognized at year-end	\$ (40)	\$ (38)	\$ (50)	\$ (46)
(1) Reflects a contribution made between the September 30, 2002 measurement date and December 28, 2002.				
Amounts recognized in the statement of financial position consist of:				
Accrued benefit liability	\$ (172)	\$ (84)	\$ (50)	\$ (46)
Intangible asset	18	8	—	—
Accumulated other comprehensive loss	114	38	—	—
	\$ (40)	\$ (38)	\$ (50)	\$ (46)
Other comprehensive loss attributable to change in additional minimum liability recognition	\$ 76	\$ 38		
Additional year-end information for pension plans with benefit obligations in excess of plan assets				
Benefit obligation	\$ 501	\$ 420		
Fair value of plan assets	251	291		
Additional year-end information for pension plans with accumulated benefit obligations in excess of plan assets				
Benefit obligation	\$ 501	\$ 420		
Accumulated benefit obligation	448	369		
Fair value of plan assets	251	291		

The assumptions used to compute the information above are set forth below:

	Pension Benefits			Postretirement Medical Benefits		
	2002	2001	2000	2002	2001	2000
Discount rate	6.85%	7.60%	8.03%	6.85%	7.58%	8.27%
Long-term rate of return on plan assets	8.50%	10.00%	10.00%	—	—	—
Rate of compensation increase	3.85%	4.60%	5.03%	3.85%	4.60%	5.03%

We have assumed the annual increase in cost of postretirement medical benefits was 12.0% for both non-Medicare eligible retirees and Medicare eligible retirees in 2002 and will be 12.0% for both in 2003. We are assuming the rates for non-Medicare and Medicare eligible retirees will decrease to an ultimate rate of 5.5% by 2011 and remain at that level thereafter. There is a cap on our medical liability for certain retirees. The cap for Medicare eligible retirees was reached in 2000 and the cap for non-Medicare eligible retirees is expected to be reached between the years 2007-2008; once the cap is reached, our annual cost per retiree will not increase.

Assumed health care cost trend rates have a significant effect on the amounts reported for our postretirement health care plans. A one percent increase or decrease in the assumed health care cost trend rates would have increased or decreased our accumulated postretirement benefit obligation at December 28, 2002 by approximately \$2 million. The impact on our 2002 benefit cost would not have been significant.

18

STOCK-BASED EMPLOYEE COMPENSATION

NOTE

At year-end 2002, we had four stock option plans in effect: the YUM! Brands, Inc. Long-Term Incentive Plan ("1999 LTIP"), the 1997 Long-Term Incentive Plan ("1997 LTIP"), the YUM! Brands, Inc. Restaurant General Manager Stock Option Plan ("YUMBucks") and the YUM! Brands, Inc. SharePower Plan ("SharePower").

We may grant awards of up to 15.2 million shares and 45.0 million shares of stock under the 1999 LTIP and 1997 LTIP, respectively. Potential awards to employees and non-employee directors under the 1999 LTIP include stock options, incentive stock options, stock appreciation rights, restricted stock, stock units, restricted stock units, performance shares and performance units. Potential awards to employees and non-employee directors under the 1997 LTIP include stock appreciation rights, restricted stock and performance restricted stock units. Prior to January 1, 2002, we also could grant stock options and incentive stock options under the 1997 LTIP. We have issued only stock options and performance restricted stock units under the 1997 LTIP and have issued only stock options under the 1999 LTIP.

We may grant stock options under the 1999 LTIP to purchase shares at a price equal to or greater than the average market price of the stock on the date of grant. New option grants under the 1999 LTIP can have varying vesting provisions and exercise periods. Previously granted options under the 1997 LTIP and 1999 LTIP vest in periods ranging from immediate to 2006 and expire ten to fifteen years after grant.

We may grant options to purchase up to 15.0 million shares of stock under YUMBucks at a price equal to or greater than the average market price of the stock on the date of grant. YUMBucks options granted have a four year vesting period and expire ten years after grant. We may grant options to purchase up to 14.0 million shares of stock at a price equal to or greater than the average market price of the stock on the date of grant under SharePower. Previously granted SharePower options have expirations through 2006.

At the Spin-off Date, we converted certain of the unvested options to purchase PepsiCo stock that were held by our employees to YUM stock options under either the 1997 LTIP or SharePower. We converted the options at amounts and exercise prices that maintained the amount of unrealized stock appreciation that existed immediately prior to the Spin-off. The vesting dates and exercise periods of the options were not affected by the conversion. Based on their original PepsiCo grant date, these converted options vest in periods ranging from one to ten years and expire ten to fifteen years after grant.

We estimated the fair value of each option grant made during 2002, 2001 and 2000 as of the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2002	2001	2000
Risk-free interest rate	4.3%	4.7%	6.4%
Expected life (years)	6.0	6.0	6.0
Expected volatility	33.9%	32.7%	32.6%
Expected dividend yield	0.0%	0.0%	0.0%

A summary of the status of all options granted to employees and non-employee directors as of December 28, 2002, December 29, 2001 and December 30, 2000, and changes during the years then ended is presented below (tabular options in thousands):

	December 28, 2002		December 29, 2001		December 30, 2000	
	Options	Wtd. Avg. Exercise Price	Options	Wtd. Avg. Exercise Price	Options	Wtd. Avg. Exercise Price
Outstanding at beginning of year	54,452	\$ 16.04	53,358	\$ 15.60	48,331	\$ 15.59
Granted at price equal to average market price	6,974	25.52	10,019	17.34	15,719	15.17
Exercised	(8,876)	14.06	(3,635)	11.56	(3,657)	10.92
Forfeited	(2,920)	19.07	(5,290)	17.16	(7,035)	16.99
Outstanding at end of year	49,630	\$ 17.54	54,452	\$ 16.04	53,358	\$ 15.60
Exercisable at end of year	17,762	\$ 13.74	12,962	\$ 12.76	15,244	\$ 12.30
Weighted average fair value of options granted during the year		\$ 10.44		\$ 7.10		\$ 6.74

The following table summarizes information about stock options outstanding and exercisable at December 28, 2002 (tabular options in thousands):

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Options	Wtd. Avg. Remaining Contractual Life	Wtd. Avg. Exercise Price	Options	Wtd. Avg. Exercise Price
\$ 0 – 10	1,402	1.92	\$ 7.60	1,402	\$ 7.60
10 – 15	10,416	4.27	12.77	9,888	12.75
15 – 20	24,696	7.01	16.17	6,136	16.24
20 – 30	12,412	7.75	24.35	325	22.46
30 – 40	704	6.30	36.32	11	36.38
	49,630			17,762	

In November 1997, we granted two awards of performance restricted stock units of YUM's Common Stock to our Chief Executive Officer ("CEO"). The awards were made under the 1997 LTIP and may be paid in Common Stock or cash at the discretion of the Compensation Committee of the Board of Directors. Payment of an award of \$2.7 million was contingent upon the CEO's continued employment through January 25, 2001 and our attainment of certain pre-established earnings thresholds. In January 2001, our CEO received a cash payment of \$2.7 million following the Compensation Committee's certification of YUM's attainment of the pre-established earnings threshold. Payment of an award of \$3.6 million is contingent upon his employment through January 25, 2006 and our attainment of certain pre-established earnings thresholds. The annual expense related to these awards included in earnings was \$0.4 million for 2002, \$0.5 million for 2001 and \$1.3 million for 2000.

19 OTHER COMPENSATION AND BENEFIT PROGRAMS

NOTE

We sponsor two deferred compensation benefit programs, the Restaurant Deferred Compensation Plan and the Executive Income Deferral Program (the "RDC Plan" and the "EID Plan," respectively) for eligible employees and non-employee directors.

Effective October 1, 2001, participants can no longer defer funds into the RDC Plan. Prior to that date, the RDC Plan allowed participants to defer a portion of their annual salary. The participant's balances will remain in the RDC Plan until their scheduled distribution dates. As defined by the RDC Plan, we credit the amounts deferred with earnings based on the investment options selected by the participants. Investment options in the RDC Plan consist of phantom shares of various mutual funds and YUM Common Stock. We recognize compensation expense for the appreciation or depreciation, if any, attributable to all investments in the RDC Plan, and prior to October 1, 2001, for any matching contributions. Our obligations under the RDC program as of the end of 2002 and 2001 were \$10 million and \$13 million, respectively. We recognized annual compensation expense of less than \$1 million in 2002, \$3 million in 2001 and \$1 million in 2000 for the RDC Plan.

The EID Plan allows participants to defer receipt of a portion of their annual salary and all or a portion of their incentive compensation. As defined by the EID Plan, we credit the amounts deferred with earnings based on the investment options selected by the participants. These investment options are limited to cash and phantom shares of our Common Stock. The EID Plan allows participants to defer incentive compensation to purchase phantom shares of our Common Stock at a 25% discount from the average market price at the date of deferral (the "Discount Stock Account"). Participants bear the risk of forfeiture of both the discount and any amounts deferred to the Discount Stock Account if they voluntarily separate from employment during the two year vesting period. We expense the intrinsic value of the discount over the vesting period. As investments in the phantom shares of our Common Stock can only be settled in shares of our Common Stock, we do not recognize compensation expense for the appreciation or the depreciation, if any, of these investments. Deferrals into the phantom shares of our Common Stock are credited to the Common Stock Account.

Our cash obligations under the EID Plan as of the end of both 2002 and 2001 were \$24 million. We recognized compensation expense of \$2 million in 2002, \$4 million in 2001 and \$6 million in 2000 for the EID Plan.

We sponsor a contributory plan to provide retirement benefits under the provisions of Section 401(k) of the Internal Revenue Code (the "401(k) Plan") for eligible U.S. salaried and hourly employees. During 2002, participants were able to elect to contribute up to 15% of eligible compensation on a pre-tax basis (the maximum participant contribution increased from 15% to 25% effective January 1, 2003). Participants may allocate their contributions to one or any combination of 10 investment options within the 401(k) Plan. Effective October 1, 2001, the 401(k) Plan was amended such that the Company matches 100% of the participant's contribution up to 3% of eligible compensation and 50% of the participant's contribution on the next 2% of eligible compensation. Prior to this amendment, we made a discretionary matching contribution equal to a predetermined percentage of each participant's contribution to the YUM Common Stock Fund. We determined our percentage match at the beginning of each year based on the immediate prior year performance of our Concepts. All matching contributions are made to the YUM Common Stock Fund. We recognized as compensation expense our total matching contribution of \$8 million in 2002, \$5 million in 2001 and \$4 million in 2000.

26 SHAREHOLDERS' RIGHTS PLAN

NOTE

In July 1998, our Board of Directors declared a dividend distribution of one right for each share of Common Stock outstanding as of August 3, 1998 (the "Record Date"). As a result of the two-for-one stock split distributed on June 17, 2002, each holder of Common Stock is entitled to one right for every two shares of Common Stock (one-half right per share). Each right initially entitles the registered holder to purchase a unit consisting of one one-thousandth of a share (a "Unit") of Series A Junior Participating Preferred Stock, without par value, at a purchase price of \$130 per Unit, subject to adjustment. The rights, which do not have voting rights, will become exercisable for our Common Stock ten business days following a public announcement that a person or group has acquired, or has commenced or intends to commence a tender offer for, 15% or more, or 20% or more if such person or group owned 10% or more on the adoption date of this plan, of our Common Stock. In the event the rights become exercisable for Common Stock, each right will entitle its holder (other than the Acquiring Person as defined in the Agreement) to purchase, at the right's then-current exercise price, YUM Common Stock having a value of twice the exercise price of the right. In the event the rights become exercisable for Common Stock and thereafter we are acquired in a merger or other business combination, each right will entitle its holder to purchase, at the right's then-current exercise price, common stock of the acquiring company having a value of twice the exercise price of the right.

We can redeem the rights in their entirety, prior to becoming exercisable, at \$0.01 per right under certain specified conditions. The rights expire on July 21, 2008, unless we extend that date or we have earlier redeemed or exchanged the rights as provided in the Agreement.

This description of the rights is qualified in its entirety by reference to the Rights Agreement between YUM and BankBoston, N.A., as Rights Agent, dated as of July 21, 1998 (including the exhibits thereto).

4 SHARE REPURCHASE PROGRAM

NOTE

In November 2002, our Board of Directors authorized a new share repurchase program. This program authorizes us to repurchase, through November 20, 2004, up to \$300 million (excluding applicable transaction fees) of our outstanding Common Stock. During 2002, we repurchased approximately 1.2 million shares for approximately \$28 million at an average price per share of approximately \$24 under this program. At December 28, 2002, approximately \$272 million remained available for repurchases under this program. Based on market conditions and other factors, additional repurchases may be made from time to time in the open market or through privately negotiated transactions at the discretion of the Company.

In February 2001, our Board of Directors authorized a share repurchase program. This program authorized us to repurchase up to \$300 million (excluding applicable transaction fees) of our outstanding Common Stock. This share repurchase program was completed in 2002. During 2002, we repurchased approximately 7.0 million shares for approximately \$200 million at an average price per share of approximately \$29 under this program. During 2001, we repurchased approximately 4.8 million shares for approximately \$100 million at an average price per share of approximately \$21 under this program.

In 1999, our Board of Directors authorized a share repurchase program. This program authorized us to repurchase up to \$350 million (excluding applicable transaction fees) of our outstanding Common Stock. This share repurchase program was completed in 2000. During 2000, we repurchased approximately 12.8 million shares for approximately \$216 million at an average price per share of approximately \$17. In total, we repurchased approximately 19.5 million shares for approximately \$350 million at an average price per share of approximately \$18 under this program.

4 INCOME TAXES

NOTE

The details of our income tax provision (benefit) are set forth below:

	2002	2001	2000
Current:			
Federal	\$ 137	\$ 200	\$ 215
Foreign	93	75	66
State	24	38	41
	254	313	322
Deferred:			
Federal	29	(29)	(11)
Foreign	(6)	(33)	(9)
State	(2)	(10)	(31)
	21	(72)	(51)
	\$ 275	\$ 241	\$ 271

Taxes payable were reduced by \$49 million, \$13 million and \$5 million in 2002, 2001 and 2000, respectively, as a result of stock option exercises. In addition, goodwill and other intangibles were reduced by \$8 million in 2001 as a result of the settlement of a disputed claim with the Internal Revenue Service relating to the deductibility of reacquired franchise rights and other intangibles offset by an \$8 million reduction in deferred and accrued taxes payable.

In 2002, valuation allowances related to deferred tax assets in certain states and foreign countries were increased by \$1 million and \$6 million, respectively, primarily as a result of determining that it is more likely than not that certain losses would not be utilized prior to expiration.

In 2001, valuation allowances related to deferred tax assets in certain states and foreign countries were reduced by \$9 million (\$6 million, net of federal tax) and \$6 million, respectively, as a result of making a determination that it is more likely than not that these assets will be utilized in the current and future years. In 2000, valuation allowances related to deferred tax assets in certain states and foreign countries were reduced by \$35 million (\$23 million, net of federal tax) and \$6 million, respectively, as a result of making a determination that it is more likely than not that these assets will be utilized in the current and future years.

The deferred foreign tax provision for both 2002 and 2001 included a \$2 million charge to reflect the impact of changes in statutory tax rates in various countries. The impact of statutory rate changes in foreign countries was less than \$1 million in 2000.

U.S. and foreign income before income taxes are set forth below:

	2002	2001	2000
U.S.	\$ 665	\$ 599	\$ 537
Foreign	193	134	147
	\$ 858	\$ 733	\$ 684

The reconciliation of income taxes calculated at the U.S. federal tax statutory rate to our effective tax rate is set forth below:

	2002	2001	2000
U.S. federal statutory rate	35.0%	35.0%	35.0%
State income tax, net of federal tax benefit	2.0	2.1	3.3
Foreign and U.S. tax effects			
attributable to foreign operations	(1.4)	0.7	0.2
Effect of unusual items	—	0.1	(0.5)
Adjustments relating to prior years	(3.2)	(3.2)	5.5
Valuation allowance reversals	—	(1.7)	(4.2)
Other, net	(0.3)	(0.2)	0.3
Effective income tax rate	32.1%	32.8%	39.6%

The details of 2002 and 2001 deferred tax liabilities (assets) are set forth below:

	2002	2001
Intangible assets and property, plant and equipment	\$ 229	\$ 176
Other	76	29
Gross deferred tax liabilities	\$ 305	\$ 205
Net operating loss and tax credit carryforwards	\$ (176)	\$ (171)
Employee benefits	(100)	(73)
Self-insured casualty claims	(58)	(62)
Capital leases and future rent obligations related to sale-leaseback agreements	(114)	(36)
Various liabilities and other	(303)	(238)
Gross deferred tax assets	(751)	(580)
Deferred tax asset valuation allowances	137	130
Net deferred tax assets	(614)	(450)
Net deferred tax [assets] liabilities	\$ (309)	\$ (245)
Reported in Consolidated Balance Sheets as:		
Deferred income tax assets	\$ (121)	\$ (79)
Other assets	(222)	(166)
Accounts payable and other current liabilities	34	—
 	\$ (309)	\$ (245)

A determination of the unrecognized deferred tax liability for temporary differences related to our investments in foreign subsidiaries and investments in foreign unconsolidated affiliates that are essentially permanent in duration is not practicable.

We have available net operating loss and tax credit carryforwards totaling approximately \$1.3 billion at December 28, 2002 to reduce future tax of YUM and certain subsidiaries. The carryforwards are related to a number of foreign and state jurisdictions. Of these carryforwards, \$4 million expire in 2003 and \$1.1 billion expire at various times between 2004 and 2020. The remaining carryforwards of approximately \$179 million do not expire.

23 REPORTABLE OPERATING SEGMENTS

NOTE

We are principally engaged in developing, operating, franchising and licensing the worldwide KFC, Pizza Hut and Taco Bell concepts, and since May 7, 2002, the LJS and A&W concepts, which were added when we acquired YGR. KFC, Pizza Hut, Taco Bell, LJS and A&W operate throughout the U.S. and in 88, 85, 12, 5 and 17 countries and territories outside the U.S., respectively. Our five largest international markets based on operating profit in 2002 are China, United Kingdom, Canada, Australia and Korea. At December 28, 2002, we had investments in 10 unconsolidated affiliates outside the U.S. which operate principally KFC and/or Pizza Hut restaurants. These unconsolidated affiliates operate in Canada, China,

Japan, Poland and the United Kingdom. Additionally, we had an investment in an unconsolidated affiliate in the U.S. which operates Yan Can restaurants.

We identify our operating segments based on management responsibility within the U.S. and International. For purposes of applying SFAS No. 131, "Disclosure About Segments of An Enterprise and Related Information" ("SFAS 131"), we consider LJS and A&W to be a single segment. We consider our KFC, Pizza Hut, Taco Bell and LJS/A&W operating segments to be similar and therefore have aggregated them into a single reportable operating segment. Within our International operating segment, no individual country was considered material under the SFAS 131 requirements related to information about geographic areas and therefore, none have been reported separately.

Revenues

	2002	2001	2000
United States	\$ 5,347	\$ 4,827	\$ 5,062
International	2,410	2,126	2,031
Total	\$ 7,757	\$ 6,953	\$ 7,093

Operating Profit; Interest Expense, Net; and Income Before Income Taxes

	2002	2001	2000
United States	\$ 825	\$ 722	\$ 742
International ^(a)	389	318	309
Unallocated and corporate expenses	(178)	(148)	(163)
Unallocated other income (expense)	(1)	(3)	—
Facility actions net (loss) gain ^(b)	(32)	(11)	176
Unusual items income (expense) ^(b)	27	3	(204)
Total operating profit	1,030	891	860
Interest expense, net	(172)	(158)	(176)
Income before income taxes	\$ 858	\$ 733	\$ 684

Depreciation and Amortization

	2002	2001	2000
United States	\$ 228	\$ 224	\$ 231
International	122	117	110
Corporate	20	13	13
Total	\$ 370	\$ 354	\$ 354

Capital Spending

	2002	2001	2000
United States	\$ 453	\$ 392	\$ 370
International	295	232	192
Corporate	12	12	10
Total	\$ 760	\$ 636	\$ 572

Identifiable Assets

	2002	2001	2000
United States	\$ 3,285	\$ 2,521	\$ 2,400
International ^(c)	1,732	1,598	1,501
Corporate ^(d)	383	306	248
Total	\$ 5,400	\$ 4,425	\$ 4,149

Long-Lived Assets^(a)

	2002	2001	2000
United States	\$ 2,805	\$2,195	\$2,101
International	1,021	955	828
Corporate	60	45	30
	\$ 3,886	\$3,195	\$2,959

- (a) Includes equity income of unconsolidated affiliates of \$31 million, \$26 million and \$25 million in 2002, 2001 and 2000, respectively.
 (b) See Note 7 for a discussion by reportable operating segment of facility actions net (loss) gain and unusual items income (expense).
 (c) Includes investment in unconsolidated affiliates of \$225 million, \$213 million and \$257 million for 2002, 2001 and 2000, respectively.
 (d) Primarily includes deferred tax assets, fair value of derivative instruments, and property, plant and equipment, net, related to our office facilities.
 (e) Includes property, plant and equipment, net; goodwill, net; and intangible assets, net.

See Note 7 for additional operating segment disclosures related to impairment and the carrying amount of assets held for sale.

GUARANTEES, COMMITMENTS AND CONTINGENCIES

Lease Guarantees

As a result of (a) assigning our interest in and obligations under real estate leases as a condition to the refranchising of certain Company restaurants; (b) contributing certain Company restaurants to unconsolidated affiliates; and (c) guaranteeing certain other leases we are frequently contingently liable on lease agreements. These leases have varying terms, the latest of which expires in 2030. As of December 28, 2002 and December 29, 2001, the potential amount of undiscounted payments we could be required to make in the event of non-payment by the primary lessee was \$388 million and \$435 million, respectively. The present values of these potential payments discounted at our pre-tax cost of debt at December 28, 2002 and December 29, 2001, were \$278 million and \$293 million, respectively. Current franchisees are the primary lessees under the vast majority of these leases. We generally have cross-default provisions with these franchisees that would put them in default of their franchise agreement in the event of non-payment under the lease. We believe these cross-default provisions significantly reduce the risk that we will be required to make payments under these leases. Accordingly, the liability recorded for our exposure under such leases at December 28, 2002 and December 29, 2001, was not significant.

Guarantees Supporting Financial Arrangements of Certain Franchisees, Unconsolidated Affiliates and Other Third Parties

At December 28, 2002 and December 29, 2001, we had guaranteed approximately \$32 million of financial arrangements of certain franchisees, including partial guarantees of franchisee loan

pools related primarily to the Company's refranchising programs. The total loans outstanding under these loan pools were approximately \$153 million at December 28, 2002. In support of these guarantees, we have posted \$32 million of letters of credit. We also provide a standby letter of credit under which we could potentially be required to fund a portion (up to \$25 million) of one of the franchisee loan pools. Any funding under the guarantees or letters of credit would be secured by the franchisee loans and any related collateral. We believe that we have appropriately provided for our estimated probable exposures under these contingent liabilities. These provisions were primarily charged to refranchising (gains) losses.

We have guaranteed certain financial arrangements of unconsolidated affiliates and third parties. These financial arrangements primarily include lines of credit, loans and letters of credit and totaled \$41 million and \$28 million at December 28, 2002 and December 29, 2001, respectively. If all such lines of credit and letters of credit were fully drawn down, the maximum contingent liability under these arrangements would be approximately \$53 million and \$56 million as of December 28, 2002 and December 29, 2001, respectively. We have varying levels of recourse provisions and collateral that mitigate our risk under these guarantees. Accordingly, we have no recorded liability as of December 28, 2002 or December 29, 2001.

Insurance Programs

We are currently self-insured for a portion of our current and prior years' workers' compensation, employment practices liability, general liability and automobile liability losses (collectively, "casualty losses") as well as property losses and certain other insurable risks. To mitigate the cost of our exposures for certain property and casualty losses, we make annual decisions to either retain the risks of loss up to certain maximum per occurrence or aggregate loss limits negotiated with our insurance carriers, or to fully insure those risks. Since the Spin-off, we have elected to retain the risks subject to certain insured limitations. Since August 1999, we have bundled our risks for casualty losses, property losses and various other insurable risks into one pool with a single self-insured retention and purchased reinsurance coverage up to a specified limit that is significantly above our actuarially determined probable losses. We are self-insured for losses in excess of the reinsurance limit; however, we believe the likelihood of losses exceeding the reinsurance limit is remote. We are also self-insured for healthcare claims for eligible participating employees subject to certain deductibles and limitations. We have accounted for our retained liabilities for property and casualty losses and healthcare claims, including reported and incurred but not reported claims, based on information provided by independent actuaries.

Due to the inherent volatility of our actuarially determined property and casualty loss estimates, it is reasonably possible that

we could experience changes in estimated losses which could be material to our growth in quarterly and annual net income. We believe that we have recorded our reserves for property and casualty losses at a level which has substantially mitigated the potential negative impact of adverse developments and/or volatility.

Change of Control Severance Agreements

In September 2000, the Compensation Committee of the Board of Directors approved renewing severance agreements with certain key executives (the "Agreements"). These Agreements are triggered by a termination, under certain conditions, of the executive's employment following a change in control of the Company, as defined in the Agreements. If triggered, the affected executives would generally receive twice the amount of both their annual base salary and their annual incentive in a lump sum, a proportionate bonus at the higher of target or actual performance, outplacement services and a tax gross-up for any excise taxes. These Agreements have a three-year term and automatically renew each January 1 for another three-year term unless the Company elects not to renew the Agreements. If these Agreements had been triggered as of December 28, 2002, payments of approximately \$33 million would have been made. In the event of a change of control, rabbi trusts would be established and used to provide payouts under existing deferred and incentive compensation plans.

Litigation

We are subject to various claims and contingencies related to lawsuits, taxes, environmental and other matters arising out of the normal course of business. Like certain other large retail employers, the Company has been faced in certain states with allegations of purported class-wide wage and hour violations.

On August 29, 1997, a class action lawsuit against Taco Bell Corp., entitled *Bravo, et al. v. Taco Bell Corp.* ("Bravo"), was filed in the Circuit Court of the State of Oregon of the County of Multnomah. The lawsuit was filed by two former Taco Bell shift managers purporting to represent approximately 17,000 current and former hourly employees statewide. The lawsuit alleges violations of state wage and hour laws, principally involving unpaid wages including overtime, and rest and meal period violations, and seeks an unspecified amount in damages. Under Oregon class action procedures, Taco Bell was allowed an opportunity to "cure" the unpaid wage and hour allegations by opening a claims process to all putative class members prior to certification of the class. In this cure process, Taco Bell paid out less than \$1 million.

On January 26, 1999, the Court certified a class of all current and former shift managers and crew members who claim one or more of the alleged violations. A Court-approved notice and claim form was mailed to approximately 14,500 class members on January 31, 2000. Trial began on January 4, 2001. On March 9, 2001, the jury reached verdicts on the substantive issues in this matter. A number of these verdicts were in favor of the Taco Bell position; however, certain issues were decided in favor of the plaintiffs. In April 2002, a jury trial to determine the damages of 93 of those claimants found that Taco Bell failed to pay for certain meal breaks and/or off-the-clock work for 86 of the 93 claimants. However, the total amount of hours awarded by the jury was substantially less than that sought by the claimants. In July and September 2002, the court ruled on several post-trial motions, including fixing the total number of potential claimants at 1,031 (including the 93 claimants for which damages have already been determined) and holding that claimants who prevail are entitled to prejudgment interest and penalty wages. The court has indicated that it will likely schedule a damages trial for the remaining 938 claimants sometime in 2003. Taco Bell intends to appeal the April 2002 damages verdict, as well as the March 2001 liability verdict.

We have provided for the estimated costs of the Bravo litigation, based on a projection of eligible claims (including claims filed to date, where applicable), the amount of each eligible claim, including the estimated legal fees incurred by plaintiffs, and the results of settlement negotiations in this and other wage and hour litigation matters. Although the outcome of this case cannot be determined at this time, we believe the ultimate cost in excess of the amounts already provided will not be material to our annual results of operations, financial condition or cash flows. Any provisions have been recorded as unusual items.

On January 16, 1998, a lawsuit against Taco Bell Corp., entitled *Wrench LLC, Joseph Shields and Thomas Rinks v. Taco Bell Corp.* ("Wrench") was filed in the United States District Court for the Western District of Michigan. The lawsuit alleges that Taco Bell Corp. misappropriated certain ideas and concepts used in its advertising featuring a Chihuahua. Plaintiffs seek to recover monetary damages under several theories, including breach of implied-in-fact contract, idea misappropriation, conversion and unfair competition. On June 10, 1999, the District Court granted summary judgment in favor of Taco Bell Corp. Plaintiffs filed an appeal with the U.S. Court of Appeals for the Sixth Circuit (the "Court of Appeals"), and oral arguments were held on September 20, 2000. On July 6, 2001, the Court of Appeals reversed the District

Court's judgment in favor of Taco Bell Corp. and remanded the case to the District Court. Taco Bell Corp. unsuccessfully petitioned the Court of Appeals for rehearing en banc, and its petition for writ of certiorari to the United States Supreme Court was denied on January 21, 2002. The case has now officially been returned to the District Court, where the Wrench plaintiffs will be allowed to bring their claims to trial. It is expected that the trial will commence in May 2003.

We believe that the Wrench plaintiffs' claims are without merit and are vigorously defending the case. However, in view of the inherent uncertainties of litigation, the outcome of the case cannot be predicted at this time. Likewise, the amount of any potential loss cannot be reasonably estimated.

Obligations to PepsiCo, Inc. After Spin-off

In connection with the Spin-off, we entered into separation and other related agreements (the "Separation Agreements") governing the Spin-off and our subsequent relationship with PepsiCo. These agreements provide certain indemnities to PepsiCo.

The Separation Agreements provided for, among other things, our assumption of all liabilities relating to the restaurant businesses, including California Pizza Kitchen, Chevys Mexican Restaurant, D'Angelo's Sandwich Shops, East Side Mario's and Hot 'n Now (collectively the "Non-core Businesses", which were disposed of in 1997), and our indemnification of PepsiCo with respect to these liabilities. These liabilities were not material as of December 28, 2002.

In addition, we have indemnified PepsiCo for any costs or losses it incurs with respect to all letters of credit, guarantees and contingent liabilities relating to our businesses under which PepsiCo remains liable. As of December 28, 2002, PepsiCo remains liable for approximately \$65 million on a nominal basis related to these contingencies. This obligation ends at the time PepsiCo is released, terminated or replaced by a qualified letter of credit. We have not been required to make any payments under this indemnity.

Under the Separation Agreements, PepsiCo maintains full control and absolute discretion with regard to any combined or consolidated tax filings for periods through October 6, 1997. PepsiCo also maintains full control and absolute discretion regarding any common tax audit issues. Although PepsiCo has contractually agreed to, in good faith, use its best efforts to settle all joint interests in any common audit issue on a basis consistent with prior practice, there can be no assurance that determinations

made by PepsiCo would be the same as we would reach, acting on our own behalf. Through December 28, 2002, there have not been any determinations made by PepsiCo where we would have reached a different determination.

We also agreed to certain restrictions on our actions to help ensure that the Spin-off maintained its tax-free status. These restrictions, which were generally applicable to the two-year period following October 6, 1997, included among other things, limitations on any liquidation, merger or consolidation with another company, certain issuances and redemptions of our Common Stock, our granting of stock options and our sale, franchising, distribution or other disposition of assets. If we failed to abide by these restrictions or to obtain waivers from PepsiCo and, as a result, the Spin-off fails to qualify as a tax-free reorganization, we may be obligated to indemnify PepsiCo for any resulting tax liability, which could be substantial. No payments under these indemnities have been required or are expected to be required. Additionally, PepsiCo is entitled to the federal income tax benefits related to the exercise after the Spin-off of vested PepsiCo options held by our employees. We expense the payroll taxes related to the exercise of these options as incurred.

AMERISERVE BANKRUPTCY REORGANIZATION PROCESS

NOTE

AmeriServe was the principal distributor of food and paper supplies to our U.S. stores when it filed for protection under Chapter 11 of the U.S. Bankruptcy Code on January 31, 2000. A plan of reorganization for AmeriServe (the "POR") was approved on November 28, 2000, which resulted in, among other things, the assumption of our distribution agreement, subject to certain amendments, by McLane Company, Inc.

During the AmeriServe bankruptcy reorganization process, we took a number of actions to ensure continued supply to our system. Those actions resulted in a cumulative net unusual items expense of \$110 million, which was principally recorded in 2000, being recorded through year-end 2002.

Under the POR we are entitled to proceeds from certain residual assets, preference claims and other legal recoveries of the estate which are generally recorded as unusual items income when they are realized. We recorded \$39 million and \$21 million of net recoveries under the POR as unusual items income in 2002 and 2001, respectively. These net recoveries are included in the cumulative net unusual items expense of \$110 million.

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2002					
Revenues:					
Company sales	\$ 1,426	\$ 1,571	\$ 1,705	\$ 2,189	\$ 6,891
Franchise and license fees	188	196	210	272	866
Total revenues	1,614	1,767	1,915	2,461	7,757
Total costs and expenses, net	1,388	1,526	1,657	2,156	6,727
Operating profit	226	241	258	305	1,030
Net income	124	140	147	172	583
Diluted earnings per common share	0.40	0.45	0.47	0.56	1.88
Operating profit attributable to:					
Facility actions net loss (gain)	9	10	13	—	32
Unusual items (income) expense	(11)	(9)	(4)	(3)	(27)
2001	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues:					
Company sales	\$ 1,326	\$ 1,416	\$ 1,449	\$ 1,947	\$ 6,138
Franchise and license fees	180	189	191	255	815
Total revenues	1,506	1,605	1,640	2,202	6,953
Total costs and expenses, net	1,330	1,390	1,409	1,933	6,062
Operating profit	176	215	231	269	891
Net income	88	116	124	164	492
Diluted earnings per common share	0.29	0.38	0.40	0.54	1.62
Operating profit attributable to:					
Facility actions net loss (gain)	2	(18)	(9)	26	1
Unusual items (income) expense	2	(4)	—	(11)	(3)

See Note 7 for details of facility actions net loss (gain) and unusual items (income) expense.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

TO OUR SHAREHOLDERS:

We are responsible for the preparation, integrity and fair presentation of the Consolidated Financial Statements, related notes and other information included in this annual report. The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America and include certain amounts based upon our estimates and assumptions, as required. Other financial information presented in the annual report is derived from the financial statements.

We maintain a system of internal control over financial reporting, designed to provide reasonable assurance as to the reliability of the financial statements, as well as to safeguard assets from unauthorized use or disposition. The system is supported by formal policies and procedures, including an active Code of Conduct program intended to ensure employees adhere to the highest standards of personal and professional integrity. Our internal audit function monitors and reports on the adequacy of and compliance with the internal control system, and appropriate actions are taken to address significant control deficiencies and other opportunities for improving the system as they are identified.

The Consolidated Financial Statements have been audited and reported on by our independent auditors, KPMG LLP, who were given free access to all financial records and related data, including minutes of the meetings of the Board of Directors and Committees of the Board. We believe that management representations made to the independent auditors were valid and appropriate.

The Audit Committee of the Board of Directors, which is composed solely of outside directors, provides oversight to our financial reporting process and our controls to safeguard assets through periodic meetings with our independent auditors, internal auditors and management. Both our independent auditors and internal auditors have free access to the Audit Committee.

Although no cost-effective internal control system will preclude all errors and irregularities, we believe our controls as of December 28, 2002 provide reasonable assurance that our assets are reasonably safeguarded.



David J. Deno
Chief Financial Officer

REPORT OF INDEPENDENT AUDITORS

THE BOARD OF DIRECTORS

YUM! BRANDS, INC.:

We have audited the accompanying consolidated balance sheets of YUM! Brands, Inc. and Subsidiaries ("YUM") (formerly TRICON Global Restaurants, Inc.) as of December 28, 2002 and December 29, 2001, and the related consolidated statements of income, cash flows and shareholders' equity (deficit) and comprehensive income for each of the years in the three-year period ended December 28, 2002. These consolidated financial statements are the responsibility of YUM's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of YUM as of December 28, 2002 and December 29, 2001, and the results of its operations and its cash flows for each of the years in the three-year period ended December 28, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 2 and 12 to the consolidated financial statements, YUM adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," in 2002.

KPMG LLP

KPMG LLP
Louisville, Kentucky
February 7, 2003

SELECTED FINANCIAL DATA

(in millions, except per share and unit amounts)	2002	2001	2000	1999	1998
	Fiscal Year				
Summary of Operations					
Revenues					
Company sales ^(a)	\$ 6,891	\$ 6,138	\$ 6,305	\$ 7,099	\$ 7,852
Franchise and license fees	866	815	788	723	627
Total	7,757	6,953	7,093	7,822	8,479
Facility actions net (loss) gain ^(b)	(32)	(1)	176	381	275
Unusual items income (expense) ^{(b)(c)}	27	3	(204)	(51)	(151)
Operating profit	1,030	891	860	1,240	1,028
Interest expense, net	172	158	176	202	272
Income before income taxes	858	733	684	1,038	756
Net income	583	492	413	627	445
Basic earnings per common share ^(d)	1.97	1.68	1.41	2.05	1.46
Diluted earnings per common share ^(d)	1.88	1.62	1.39	1.96	1.42
Cash Flow Data					
Provided by operating activities	\$ 1,088	\$ 832	\$ 491	\$ 565	\$ 674
Capital spending, excluding acquisitions	760	636	572	470	460
Proceeds from refranchising of restaurants	81	111	381	916	784
Balance Sheet					
Total assets	\$ 5,400	\$ 4,425	\$ 4,149	\$ 3,961	\$ 4,531
Operating working capital deficit ^(e)	(801)	(663)	(634)	(832)	(960)
Long-term debt	2,299	1,552	2,397	2,391	3,436
Total debt	2,445	2,248	2,487	2,508	3,532
Other Data					
System sales ^(f)					
U.S.	\$ 15,839	\$ 14,596	\$ 14,514	\$ 14,516	\$ 14,013
International	8,380	7,732	7,645	7,246	6,607
Total	24,219	22,328	22,159	21,762	20,620
Number of stores at year end					
Company	7,526	6,435	6,123	6,981	8,397
Unconsolidated Affiliates	2,148	2,000	1,844	1,178	1,120
Franchisees	20,724	19,263	19,287	18,414	16,650
Licensees	2,526	2,791	3,163	3,409	3,596
System	32,924	30,489	30,417	29,982	29,763
U.S. Company same store sales growth					
KFC	—	3%	(3)%	2%	3%
Pizz Hut	—	—	1%	9%	6%
Taco Bell	7%	—	(5)%	—	3%
Blended ^(g)	2%	1%	(2)%	4%	4%
Shares outstanding at year end (in millions) ^(h)	294	293	293	302	306
Market price per share at year end ^(d)	\$ 24.12	\$ 24.62	\$ 16.50	\$ 18.97	\$ 23.82

Fiscal years 2002, 2001, 1999 and 1998 include 52 weeks. Since May 7, 2002, fiscal year 2002, includes Long John Silver's ("LJS") and A&W All-American Food Restaurants ("A&W"), which were added when we acquired Yorkshire Global Restaurants, Inc. Fiscal year 2002 includes the impact of the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). See Note 12 to the Consolidated Financial Statements for further discussion of SFAS 142. Fiscal year 2000 includes 53 weeks. The selected financial data should be read in conjunction with the Consolidated Financial Statements and the Notes thereto.

(a) The decline in Company sales through 2001 was largely the result of our refranchising initiatives.

(b) In the fourth quarter of 1997, we recorded a charge to facility actions net (loss) gain and unusual items income (expense) which included (a) costs of closing stores, (b) reductions to fair market value, less cost to sell, of the carrying amounts of certain restaurants that we intended to rebrand, (c) impairments of certain restaurants intended to be used in the business, (d) impairments of certain unconsolidated affiliates to be retained, and (e) costs of related personnel reductions. In 1999, we recorded favorable adjustments of \$13 million in facility actions net gain and \$11 million in unusual items related to the 1997 fourth quarter charge. In 1998, we recorded favorable adjustments of \$54 million in facility actions net gain and \$11 million in unusual items related to the 1997 fourth quarter charge.

(c) See Note 7 to the Consolidated Financial Statements for a description of unusual items income (expense) in 2002, 2001 and 2000.

(d) Per share and share amounts have been adjusted to reflect the two-for-one stock split distributed on June 17, 2002.

(e) Operating working capital deficit is current assets excluding cash and cash equivalents and short-term investments, less current liabilities excluding short-term borrowings.

(f) System sales represents the combined sales of Company, unconsolidated affiliates, franchise and license restaurants.

(g) U.S. same-store sales growth for LJS and A&W are not included.

BOARD OF DIRECTORS

- David C. Novak** 50
Chairman, Chief Executive Officer and President, Yum! Brands, Inc.
- Andrall E. Pearson** 76
Founding Chairman, Yum! Brands, Inc.
- D. Ronald Daniel** 72
Treasurer, Harvard University,
Former Managing Partner, McKinsey and Company
- James Dimon** 47
Chairman and Chief Executive Officer, Bank One Corporation
- Massimo Ferragamo** 45
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- J. David Grissom** 64
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- Robert Holland, Jr.** 62
Former owner and Chief Executive Officer, WorkPlace Integrators,
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- Sidney Kohl** 72
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Founder, Kohl's Department Stores
- Kenneth G. Langone** 66
Founder, Chairman of the Board and Chief Executive Officer,
Invemed Associates, LLC, an investment banking firm,
Founder, Home Depot, Inc.
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- Jackie Trujillo** 67
Chairman of the Board, Harman Management Corporation
- Robert J. Ulrich** 59
Chairman and Chief Executive Officer, Target Corporation
and Target Stores
- John L. Weinberg** 77
Director, Goldman Sachs Group, Inc.

SENIOR OFFICERS

- David C. Novak** 50
Chairman, Chief Executive Officer and President, Yum! Brands, Inc.
- Cheryl A. Bachelder** 46
President and Chief Concept Officer, KFC, U.S.A.
- Peter A. Bassi** 53
President, Yum! Restaurants International
- Jonathan D. Blum** 44
Senior Vice President, Public Affairs, Yum! Brands, Inc.
- Emil J. Brolick** 55
President and Chief Concept Officer, Taco Bell, U.S.A.
- Anne P. Byerlein** 44
Chief People Officer, Yum! Brands, Inc.
- Christian L. Campbell** 52
Senior Vice President, General Counsel, Secretary and Chief
Franchise Policy Officer, Yum! Brands, Inc.
- Kathy Corsi** 42
Senior Vice President, Treasurer, Yum! Brands, Inc.
- David J. Deno** 45
Chief Financial Officer, Yum! Brands, Inc.
- Peter R. Hearl** 51
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- Aylwin B. Lewis** 48
President, and Chief Multibranding and
Operating Officer, Yum! Brands, Inc.
- Tony Mastropaoletti** 39
Chief Operating Officer, KFC, U.S.A.
- Michael A. Miles** 40
Chief Operating Officer, Pizza Hut, U.S.A.
- Charles E. Rawley, III** 52
Chief Development Officer, Yum! Brands, Inc.
- Rob Savage** 41
Chief Operating Officer, Taco Bell, U.S.A.
- Brent A. Woodford** 40
Vice President and Controller, Yum! Brands, Inc.

SHAREHOLDER INFORMATION

Annual Meeting The Annual Meeting of Shareholders will be at Yum! Brands' headquarters, Louisville, Kentucky, at 9:00 a.m. (EDT), Thursday, May 15, 2003. Proxies for the meeting will be solicited by an independent proxy solicitor. This Annual Report is not part of the proxy solicitation.

INQUIRIES REGARDING YOUR STOCK HOLDINGS

Registered Shareholders Shares held by you in your name should address communications concerning statements, address changes, lost certificates and other administrative matters to:

Yum! Brands, Inc.
c/o EquiServe Trust Company, N.A.
P.O. Box 43016
Providence, RI 02940-3016
Telephone: (888) 439-4986
www.equiserve.com
or
Shareholder Coordinator
Yum! Brands, Inc.
1441 Gardiner Lane, Louisville, KY 40213
Telephone: (888) 2YUMYUM (298-6986)
E-mail: yum.investor@yum.com
Internet: www.yum.com

In all correspondence or telephone inquiries, please mention Yum! Brands, your name as printed on your statement or stock certificate, your Social Security number, your address and your telephone number.

Beneficial Shareholders Shares held in the name of your bank or broker should direct communications on all administrative matters to your stockbroker.

YUMBucks and SharePower Participants Employees with YUMBucks options or SharePower options should address all questions regarding your account, outstanding options or shares received through option exercises to:

Merrill Lynch/SharePower
Stock Option Plan Services
P.O. Box 30446
New Brunswick, NJ 08989-0446
Telephone: (800) 637-2432 (U.S., Puerto Rico and Canada)
(732) 560-9444 (all other locations)

In all correspondence, please provide your account number (for U.S. citizens, this is your Social Security number), your address and your telephone number and mention either YUMBucks or SharePower. For telephone inquiries, please have a copy of your most recent statement available.

Employee Benefit Plan Participants

Direct Stock Purchase Program (888) 439-4986
YUM 401(k) Plan (888) 875-4015
YUM Savings Center (617) 847-1013 (outside U.S.)
P.O. Box 1389
Boston, MA 02104-1389

Please have a copy of your most recent statement available when calling. Press *0 for a customer service representative and give the representative the name of the plan.

SHAREHOLDER SERVICES

Direct Stock Purchase Plan A brochure explaining this convenient plan is available from our transfer agent:

EquiServe Trust Company, N.A.
P.O. Box 43016
Providence, RI 02940-3016
(888) 439-4986
www.equiserve.com

Low-Cost Investment Plan Investors may purchase their initial shares of stock through NAIC's Low-Cost Investment Plan. For details contact:

National Association of Investors Corporation (NAIC)
711 West Thirteen Mile Road
Madison Heights, MI 48071
(877) ASK-NAIC (275-6242)
www.better-investing.org

Financial and Other Information Earnings and other financial results, corporate news and company information are now available on Yum! Brands' Web site: www.yum.com.

Copies of Yum! Brands' SEC Forms 8-K, 10-K and 10-Q and quarterly earnings releases are available free of charge. Contact Yum! Brands' Shareholder Relations at (888) 2YUMYUM (298-6986) or e-mail yum.investor@yum.com.

Securities analysts, portfolio managers, representatives of financial institutions and other individuals with questions regarding Yum! Brands' performance are invited to contact:

Tim Jerzyk
Vice President, Investor Relations
Yum! Brands, Inc.
1441 Gardiner Lane
Louisville, KY 40213
Telephone: (502) 874-2543

Independent Auditors

KPMG LLP
400 West Market Street, Suite 2600
Louisville, KY 40202
Telephone: (502) 587-0535

CAPITAL STOCK INFORMATION

Stock Trading Symbol—YUM

The New York Stock Exchange is the principal market for YUM Common Stock.

Shareholders At year-end 2002, there were approximately 115,000 registered holders of record of Yum! Brands' Common Stock.

Dividend Policy Yum! Brands does not currently pay dividends, and the Company does not anticipate doing so in the near future.

Yum! Brands' Annual Report contains many of the valuable trademarks owned and used by Yum! Brands and subsidiaries and affiliates in the United States and worldwide.

Printed on recycled paper

Bringing Yum! to the Community

At Yum! Brands, we believe in giving back to the community, and in making a difference in the lives of our customers and their families. While we financially support hundreds and hundreds of charities across the globe, our efforts are primarily focused on *nourishing the bodies, minds and souls of children in need*. We are doing this through programs dedicated to hunger relief, day-care subsidies, reading incentives and mentoring at-risk teens.

Many of the 840,000 employees and franchisees in the Yum! system give back every day, in many ways, all with a hope that we can leave this globe a little bit better than we found it. We believe we truly can make a difference and we want to thank them for their outstanding community service and dedication. Here's a brief snapshot of their work:



TEENSupreme®

NOURISHING BODIES:

Yum! Harvest In America alone, one in ten children under the age of five runs the risk of going to bed hungry every night. One in ten. So we decided to do something about this and have launched the world's largest prepared food recovery program. We now donate millions of pounds of prepared food to the hungry. Food that has nutritional value and will provide nourishment to those most in need, the underprivileged.

NOURISHING YOUNG MINDS:

Pizza Hut's Book It! For over 18 years, Pizza Hut has provided an incentive for kids to learn to read by the third grade. More than 22 million students a year, in 875,000 classrooms participate in Book It! The program is relied on year after year by teachers in 50,000 schools—nearly 70% of the nation's elementary schools—so that young minds are nourished with books.

NOURISHING SOULS:

KFC's Colonel's Kids With more and more double-income or single-parent households, finding affordable daycare has become an increasing burden. That's why KFC turned to the YMCA and together established Colonel's Kids. Today, we subsidize high quality YMCA daycare for families in need. We're also piloting a program to extend daycare beyond the traditional Monday–Friday, 9AM–5PM timeframe, for the millions of people who work "after hours" or on weekends.

Taco Bell's TEENSupreme Through a unique partnership with the Boys & Girls Clubs of America, Taco Bell has established a mentoring program for at-risk teens, offering a safe haven and recreational activities to keep kids off the street. To date, over \$11 million has been donated to the Boys & Girls Clubs for TEENSupreme programming.

From left to right

Ashleigh Keister enjoys a story as part of the Book It! Program.

Youth learn critical computer skills through the TEENSupreme partnership.

Yum! Employees help feed those in need through Yum! Harvest, the world's largest prepared food recovery program.



Yum! to you!



Alone we're delicious. Together we're **Yum!**

